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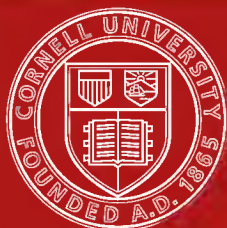
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# CHILE

1851 - 1910

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Sixty years of Monetary and Financial  
Questions and of Banking Problems

BY

AGUSTIN ROSS

*Valparaiso, August 1910.*

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## INTRODUCTION.

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In fulfilment of a promise made to a friend in France, I have written the following essay on the complex monetary and banking affairs of Chile and their antecedents.

I add a pamphlet containing the new Law of August 30th 1909 intituled the Law of Conversion, and the Message of the President of the Republic objecting to some of the dispositions of that Law.

I subjoin also a pamphlet containing my Bill for the reorganization of the Chilean banks.

I also accompany this essay with Don Roberto Espinoza's, book, "*Financial Questions*," from which I make several quotations in the following pages. It is the only book recently published in Chile containing reasonable theories on the subject.

I wish to draw special attention to the chapter in that book, entitled "*The Chilean theory on paper money*." It is worth reading if only to become acquainted with the absurdities that are said and believed here.

After the passing of the Law of August 30th 1909, the situation has become tranquil, but the monetary condition of the country is very far from satisfactory.

In my opinion neither the Press, nor the vast majority of the public, understand in the least the true monetary

position of the country, nor the dangers and disasters that it involves, and that must necessarily manifest themselves some day.

The study of the monetary and banking events that have occurred in Chile during the last sixty years is extremely interesting to economists, because it would be difficult to find another country that has had such a varied experience of these matters. We have passed through monetary anarchy (up to 1851), through bimetallism, *gold and silver*, (1851-1874), practically through monometallism, *silver* (1874-1878), through the inconvertibility of bank notes (1878-1879), through a forced currency of fiscal paper money, (1879-1895), through monometallism, *gold* (1895-1898), and now we have again a forced currency of fiscal paper money (1898-1910). We have suffered, and do so still, under a disastrous banking system that has contributed directly towards increasing the confusion in money matters, and is indeed, to a great extent, the cause of the confusion.

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# Chapter First.

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## THE PRODUCTION OF GOLD IN CHILE

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From the earliest historical notices until  
the death of Atahualpa (1533)

From before the discovery of America up to our own times, Chile has produced an enormous quantity of gold that, owing to the unskilfulness of her legislators, she has not been able to turn to good account.

The whole of her territory, from Tarapaca to Cape Horn is, and has always been, productive of gold.

Long before the discovery of America, it was notorious in Peru that there existed in Chile great abundance of gold. The historian Rosales says; "on account of the information given (as to the fertility and the wealth in gold of the kingdom of Chile) by the Peruvian Indians at Cuzco to Don Francisco Pizarro and Don Diego de Almagro, they became reconciled in renewed friendship and concord."

The natives of Chile exploited the gold washings by rudimentary and primitive methods, for they ignored the use of iron, of mercury and of gunpowder; and moreover had no scientific notions whatever.

After the invasion and conquest of the northern part of Chile by the Incas of Peru in the latter half of the 15th century, the Peruvian conquerors taught the natives more perfect methods. Consequently one of the writers of those times says that when the Europeans entered Chile "they found the mines and gold-fields so well worked that it seemed as if the Spaniards had had to do with them."

In his report to the Emperor Charles V in 1545, the Spanish conqueror Pedro de Valdivia said that the first mining operations of the new conquerors were executed in the "*masamorras*" or gold-fields exploited formerly by the natives who "only gathered the larger grains of gold, leaving all the rest."

Notwithstanding these rudimentary methods, the natives collected a considerable quantity of gold and sent it to Peru, until the Spanish invasion changed the direction of affairs.

The historian Garcilaso, speaking of the Inca, said: "He visited, through his governors, the kingdom of Chile every two or three years, and sent many fine garments and personal jewels to the *curacas* or chiefs, and their relatives, and many commoner garments for their vassals. The chiefs, in return, sent him much gold and featherwork and other fruits of the earth; and this lasted until Don Diego de Almagro entered into that kingdom as we shall presently see."

The Peruvian Incas, after their conquest of the northern half of Chile, had imposed on their new subjects a tribute payable in gold. The jesuit historian Rosales affirms that "the annual tribute received by the Inca, from the Chileans over a district of a hundred and sixty leagues that his captains conquered at first, amounted to fourteen hundredweights of refined gold of more than  $22\frac{1}{2}$  carats, in ingots of fifty dollars, stamped with the mark of a female breast."

If we accept this historic version as exact, we should calculate at more or less two and a quarter million francs of the actual French money, the tribute in gold that the ancient natives of Chile paid annually to the Incas of Peru.

Huayna Capac reigned fifty years over the empire of the Incas, from about 1475 till 1525.

A few years after ascending the throne he organized an expedition to Chile to strengthen his father's conquest. At that time he regulated the recovery of the tribute in gold that the Chilean chiefs used to pay him. Assuming that the tribute was paid with tolerable regularity during the last forty years of the reign of Huayna Capac and during the eight years of the government of his son Atahualpa, we should find that this tax ought to have produced during that period a sum of more or less a hundred million francs.

I admit that this calculation may be somewhat haphazard but it is at least probable, for it is notorious that at the time of the discovery of Peru, the Spaniards found there enormous quantities of gold; and the Peruvians admitted that a great part of that treasure came from Chile.

The historian Prestcott estimates in £3,500,000, that is, 87½ million francs, the ransom paid in gold alone to Pizarro by the Inca Atahualpa with the vain hope of obtaining his liberty.

Speaking of the great quantity of gold that then existed in Peru, the historian Garcilaso said; "when I was there, in Cuzco, gathering information about the Incas from the chief inhabitants, I heard say that Paulo Inca and other chiefs had declared that if all the treasure that existed there in the provinces, and in the tombs that are their temples, and the buried treasures, should be brought together, that which the Spaniards had taken away would make as little impression as would be made on a jar of water by taking out one drop."

On account of the particular and primitive customs of the Inca's subjects, they had no use for gold as a medium of exchange, nor as money, of the use of which they were ignorant; the whole of their commerce took the form of bar-

ter. All the gold was employed by them as an article of adornment, in works of art for the temple of the sun, in the Palaces of the Incas and in the tombs, none in trade.

Even after the death of Atahualpa, the Chilean *caciques* or chiefs were still willing to continue paying the tribute agreed upon to the Inca.

In reality, it was only an interchange of gifts: the Inca presented garments to the chiefs and to the servants of the latter, and the natives of Chile returned him gold.

In 1536 the Spanish leader Almagro who had invaded Chile, captured near Copiapó a great treasure that the *caciques* intended for the Inca; but that was the last gold obtained in that manner. The inhabitants of Chile, who were not oppressed by the easy sway of the Incas, repudiated the harsh rule of the Spaniard, and as a proof of hostility, after the capture of that treasure by Almagro, they preferred to cast into the rivers and lakes the gold that they had collected for the Inca, seeing that they could not devote it to the purpose for which it was intended, rather than let it fall into the hands of their new masters.

### From the Spanish Invasion to the founding of the Santiago Mint (1536-1758).

Soon after the Spaniards invaded the territory of Chile they established the system of *encomiendas* (commandaries), that is to say, they reduced the natives to slavery and made them work on the land, and especially in the gold mines and gold washings, without any wages. In this manner the extraction of gold was cheap and abundant, but it was a harsh system and the natives of both sexes perished by thousands in consequence of the privations they were forced to undergo.

No statistics whatever have been preserved to us of the quantity of gold extracted from 1535 to 1759, and we can only hazard a calculation, based on the data recorded by the

different historians and travellers that wrote about Chile during that period.

From 1536, when Almagro laid violent hands on the treasure that the natives destined as tribute to the Inca, we know that the Spaniards dedicated themselves principally to the extraction of gold. History records that Pedro de Valdivia in person, and in one single remittance, carried to Peru in 1547 a quantity of gold equivalent to 1,300,000 francs.

It is stated that shortly afterwards (1549-1550) Marga-Marga, the principal gold-producing district in Chile of the time, produced at the rate of  $2\frac{1}{4}$  million francs annually.

At the same time (1550) the yearly production of Casa-Blanca amounted to  $1\frac{1}{2}$  million francs. The jesuit Rosales declares that the gold then possessed by the Spaniards "was considerable," for all their buying and selling was by means of gold in the form of gold-dust and ingots.

Another historian states that the mines of Quilacoya produced in 1533 at the rate of 300,000 francs a day, and those of Imperial more than 30,000 francs also daily. This appears evidently an exaggeration.

With the death of Valdivia together with the whole of his small army at the hands of the natives at the battle of Tucapel (1554), the extraction of gold throughout the whole of Chile was for some time interrupted.

Nevertheless, Rosales declares that already in 1561, and from two mines only, those of Madre de Dios and Choapa, gold was obtained to the value of 18,000,000 francs. "Never in Chile had so much gold been extracted as then" says the jesuit historian. Referring more or less to the years 1560-1574 the historian Góngora Marmolejo states that from the mines of Valdivia and of Choapa "an immense abundance of gold *pesos* have been taken in fourteen years."

The historian Vicuña Mackenna says: "the production of a truly prodigious abundance of gold continued in this land during the whole of the rest of the 16th century."

Señor Amunátegui in his book "*Encomiendas of the natives*" says, "to sum up, although it is certain that the early



chroniclers are not to be believed when they declare that in Chile there were rivers and mountains of gold, nevertheless this precious metal doubtless represents in the 16th century the principal product of our country, thanks to the unpaid and indefatigable work of the natives."

Without statistics, and with only the preceding data, hazarding a calculation, but a moderate one, we should reckon at 200,000,000 francs the production of gold in Chile during the years 1536-1600. The 17th century was less productive of gold in Chile on account of the change of circumstances.

In 1603 took place the great rising of the natives, the destruction by them of seven Spanish towns, the expulsion of the Europeans from a great part of the territory of Chile that they had managed to conquer and occupy, and the predominance of the Araucanians in some of the regions that contained the principal gold washings. The natives concealed the gold mines and washings, refused the entrance there of the Spaniards, and having recovered in that district their personal liberty evinced a hatred of the work of extracting gold, that had made them suffer such privations beneath the heavy yoke of the Spaniards.

Also the great earthquake of 1647 that destroyed Santiago and other cities, contributed further to throw the country into disorder and to interrupt labour of all kinds. "Towards the middle of the 17th century the mining industry failed completely for the reason mentioned (the want of gratuitous labour) and for the following reason that the historian Ovalle shrewdly points out; "the second reason that I find for the fact of these treasures not being exploited, is the abundance in all the land of everything necessary to life; because where hunger, that great incentive to cupidity, is wanting, nobody is willing to run risks nor to lose the comforts of his home in order to explore the rugged mountains in search of mines." (Amunátegui).

The writers of the 17th century make little reference to the work of the extraction of gold; mention is made only

of the mines of Andacollo as producing 40,000 dollars worth of gold annually. We can only refer to the very incomplete data recorded in the few books of the accounts of the Royal Exchequer that have escaped destruction, and that are mentioned by señor Cruchaga. In them appear some figures referring to the taxes paid to the King during a series of years, on the production and assay of gold.

Taking into consideration these figures, together with the great production of gold in Chile during the 16th century and afterwards in the 18th century, and reckoning the metal that in the form of dust was extracted from the country for Buenos Aires in order to avoid the heavy taxes payable to the King, it seems impossible that Chile should have produced less than 50,000,000 francs in gold during the 17th century; that is to say, at the rate of half a million francs yearly. We consider this an extremely moderate computation

In order to calculate in this memoir the value of the gold produced we have estimated at 15 francs the value of the gold *peso* or *castellano* that, for want of coined money was, during the 16th and 17th centuries, the measure of value in Chile.

From the beginning of the 18th century the monetary situation was somewhat regulated, and we have estimated at five francs the value of the *peso* of sixteen to the ounce (*onza*); and from 1851, also at five francs the peso of ten to the *condor*. In 1893 and 1894 the peso of 24 pence has been valued at  $2\frac{1}{2}$  francs and from 1895 the peso of 18d at 1.9 francs.

We have adopted the franc as the coin for appreciating the value of the gold produced in Chile, seeing that this essay is intended for France; and on account of the instability of the measure of value in Chile.

As a general rule gold was exported from Chile clandestinely by way of Buenos Ayres, in order to avoid the heavy imposts levied on it by the Spanish Government.

These imposts were as follows:

The <i>Royal Fifth</i> .. . . . .	20%
The tax on smelting, marking and assaying	1½%
A tax ( <i>la quilca</i> ) imposed by the treasurer for stamping the ingots of gold .. . . .	½%
<hr/>	
Total .. . . . .	22%

Vicuña Mackenna in his *History of Valparaiso* says: "At the beginning of the 17th century nearly the whole of the gold and silver sent from Chile and Peru to Panama was registered, that is to say it was insured on the King's account, being delivered to the supercargoes on board the Royal Spanish galleons, who registered it in their books.

Thus the merchants paid 4% in Lima, 2% in Panama and 1% in Porto Bello, in all 7%. But as the fear of Drake and the pirates gradually disappeared, it came to pass that towards the middle of the same century nobody registered his money, in order to avoid the duties, preferring to remit it contraband to the market of Porto Bello. This was called *sending money by stealth*."

These duties were so exorbitant that they became unproductive; and in 1678 the King was obliged to reduce the 20% to 5%, and afterwards, in 1771, to 3%. This measure considerably lessened the smuggling of gold.

As we see, at that time the taxes levied on the production of gold amounted to nearly 30% of its value; and it is not strange that much of the production should have been exported clandestinely.

At the beginning of the 18th century there was still a scarcity of gold in Chile. In 1712 and 1713 the French traveller Frezier states that the production of gold was very limited, notwithstanding the discovery of gold at Copiapo in 1706, and the establishment of a Royal crushing-mill to work it.

We find that in 1726 a Señor Valdes presented to the

King's officers a quantity of gold ingots of 15, 20, and 25 lbs. to be marked and stamped, paying the tax.

The production of gold went on increasing, and already in 1730 the idea began to be discussed of founding a mint at Santiago. In 1741 the Spanish travellers Juan and Ulloa estimated that the gold exported from Chile amounted to: \$ 600,000 to Lima, and \$ 400,000 to Buenos Ayres; that is to say, 1,000,000 pesos, equivalent to 5 million francs. In the year 1744 were abolished the commandaries (*encomiendas*) of Indians, when already the indigenous race had been almost blotted out over a considerable part of the country.

From that time labour in the mines and gold washings had to be remunerated. In 1744 also, the King authorized Don Francisco García Huidobro to found the Mint of Santiago which began operations towards the end of 1759.

The production of gold went on increasing in spite of the many lawsuits and robberies, and the want of elements at that time.

If we take into account the preceding notices, and the more exact data afforded by the establishment of the Mint which between 1759 and 1770 received an annual average of  $5\frac{3}{4}$  million francs, we should consider it rather below the mark to estimate at 150 million francs, or about  $2\frac{1}{2}$  million francs a year, the production of gold in Chile between 1701 and 1759.

### **From the founding of the Mint to the year of the Independence (1759-1810)**

Between 1759, the date of its inauguration, and 1770, the Santiago Mint coined gold to the value of 63 million francs, or at the rate of  $5\frac{3}{4}$  millions yearly; and besides this, a considerable part of the production was still exported in bullion, and contraband.

We are not able to find the figures of the gold coinage in 1771. From 1772 to 1810 we have as a basis for calcula-

tion, the statistics of the Mint; but those figures do not represent the whole of the gold production of the country.

The historian Robertson estimates that during that period the contraband of gold, or that which did not pass through the Mint, was half the production of the country.

According to Humboldt, Chile produced 9 million francs worth of gold in 1803, and 10 millions in 1810. This seems to be an exaggeration, for according to the mining statistics of Señor Guillermo Yunge, Chile produced only a little more than 8 million francs in gold in 1810.

The historian Molina affirms that about the year 1805 the exportation of gold from Chile exceeded 3 million francs. The same historian declares also that the Indians in their traffic with the Spaniards practised the system of barter; they did not wish to divulge the situation, nor to work the mines and gold washings that existed in their territory. During the year of the Independence (1810) the production of gold was considerable; the Santiago Mint alone coined money to the value of more or less four million francs.

From 1772 to 1810, inclusive, the Santiago Mint coined gold to the value of 123,236,585 francs reckoning the peso equal to 5 francs.

It must be borne in mind that the greater part of the gold produced in Chile was sent abroad in the form of gold dust or bullion, in order to avoid payment of the exorbitant duties and of the coinage tax that were levied. This exportation of a considerable proportion of the gold was carried on in spite of the penalty of confiscation that at one time was imposed on all of that metal that did not pass through the Mint. It was not strange that the heavy taxes imposed during the times of the Spanish government, and that varied from 20% to 3% on account of the "*Royal Fifth*" alone, apart from the coinage taxes and other impositions, should be eluded.

Taking all this into account, it would appear a very moderate computation to estimate at 250 millions of francs the production of gold in Chile from 1759 to 1810, both years inclusive.

Summing up the computation of the gold produced in Chile up to 1810 according to the data already taken into account, we should have the following figures:

Up to the death of Atahualpa. . . .	100 millions
From 1536 to 1600 . . . . .	200 „
During the 17th century . . . . .	50 „
From 1701 to 1758. . . . .	150 „
From 1759 to 1810 . . . . .	250 „
<hr/>	
Total . . . . .	750 millions of francs.

We have arrived at this result, considering these figures moderate and reasonable, following our own method, and making use of all the information at our command. Following a method unknown to us, and making use of information of which we are also ignorant, the economist Chevalier has estimated that the gold produced in Chile up to the time of the Independence, amounted to 217,000 kilograms which, at 3,437 francs, the actual price of fine gold in France, is worth, approximately, 746 million francs. It is thus seen that the calculations coincide.

From the time of the Colony up to 1851 the monetary system of Chile was based upon the *doubloon* or *onza* of gold which, when of full weight and of legal alloy should be worth 64 shillings and 8 pence. But the system was very defective, because there were in circulation not only Chilean and Spanish *onzas* of full weight, but also those of other nationalities, and also native and foreign ones of light weight. There also circulated other coins still more defective, such as the *macuquinas*, coins shaped with the hammer and of form, weight and alloy entirely irregular.

The *doubloon* or *onza* was divided into 8 gold *escudos* or 16 silver *pesos*; the *peso* was subdivided into 8 *reals* and the *real* into 8 *octavos* of copper. In 1834 a law was passed in-

troducing partly the decimal system: the *peso* was then subdivided into 100 *centavos*.

The monetary system was totally reformed in 1851 and it was believed that the situation was definitely regulated: but a very grave defect remained that a few years later brought about its destruction, as we shall see in the course of this essay.

From the year of the Independence up to the present time.  
(1811-1909)

The Spanish colonial period in Chile terminated with an ingress into the Mint during the last year (1810) of about 4,000,000 francs in gold. The King had reduced the *Royal Fifth* to 3% only, and the tax on mining and smelting remained unchanged.

The independent government, being in want of money, began from 1812 to increase the imposts, and raised the *Royal Fifth* to 4% besides imposing other taxes. As a logical consequence the introduction of gold into the Mint began to diminish.

In a report of the superintendent of the Mint in 1819, that functionary said: "and in this manner these metals appear before the whole world labouring under an unexampled burden."

In 1826 the Government increased still more, up to a total of 10.12%, the duties on gold whereas since 1816 the Mint of England coined gold money for the public free of charge; there the state paid those expenses. Naturally the introduction of gold into the Santiago Mint was almost suppressed, being reduced in 1831 to only \$24,641, a little more than 120,000 francs.

In 1832 the total of the charges on gold was reduced from 10.12% to 5.58%. The situation of the Mint experienced a transitory improvement and gold began again to be received from the public; but this lasted only a very short time.



In spite of the exorbitant duties imposed upon the coinage, gold coin on many occasions was abundant in Chile.

In the Report of the Exchequer in 1852 appears the following: "In September of last year 80,000 pesos (in gold *onzas*) and a similar sum in October, were remitted to Europe in payment of the interest on the Anglo-Chilean debt; also payment has been made in the same money for the steamer *Castilla*, now the *Cazador*, purchased for \$80,000, it being precisely stipulated that the money must be taken out of the country; whereby a saving has been effected of the cost of having to recoin that amount."

As it is seen, the government itself exported gold and made contracts compelling the exportation of gold coin of which there was a superabundance.

The country needed money and retained it automatically. The coinage of gold was burdened with heavy taxation, but once the duties were paid and the money coined, the latter remained in the country and was not then expelled by other inferior money of legal currency.

This is the country that the advocates of paper money of to-day declare incapable of retaining a gold currency!

In 1858 the tax of 5.58% was reduced to 3.18%, but already at that time communication with Europe was much easier and cheaper, and so the relief afforded by this reduction was insufficient, and the public continued to export gold in the form of dust and bullion.

In 1864 the duties were reduced to 1.88%, a measure that gave good results for the time being; but in 1874, on account of the depreciation of silver, and in 1878 and 1879 on account of the issue of paper-money, everything was upset and from that time up to 1892 very little gold passed through the Mint.

Then, (1892) on the indication of the writer of this essay, a new monetary law was promulgated in Chile establishing, as in England, and for the first time, that all the expenses of coining gold should be borne by the State without any charge whatever to the public,

This measure produced immediate results and bullion again began to pass through the Mint—a condition of things which prevails up to the present (1910) in spite of the fact that the gold coinage continues to be systematically driven out of the country by the enormously depreciated paper money in use.

But there remains yet a grave defect of the administration, that prejudices the public and prevents the ingress into the Mint of a great quantity of the gold that the country produces and exports without coining. The Report of the Exchequer for 1901 says as follows:

“In the said tables it will be noticed also that the quantity of gold received by the Mint from the 6th of July 1898 to April 30th of last year, only corresponds to an average of six hundred thousand pesos yearly; which quantity is certainly very inferior to the production of the country in which almost the whole quantity produced would remain if the Mint paid, together with the price of the gold, that of the silver and copper contained in the argentiferous and cupriferous bars of gold that at present it does not pay; so that the buying transactions are limited almost exclusively to the purchase of gold from the gold washings, that is generally obtained in a pure state or combined with foreign matters of very little importance.

If this difficulty were overcome by the creation of a department for the separation of the three metals and which, according to information gathered, would not cost very much, and which could be safely installed in the Mint itself, apart from the indisputable advantages that this measure would afford to the development of the mining industry, it would secure a notable economy to the Exchequer that in the future would leave off buying in European markets, under conditions made onerous by the expenses of shipping, insurance, commission and other charges, at least a considerable part of the gold that the country requires.”

In view of these antecedents we can now make a calculation of the gold purchased by the Santiago Mint be-

tween 1811 and 1909, and of the quantity produced by the country during the same period.

From 1811 to 1909 inclusive, the Mint bought gold to the value of 226,000,000 francs, but of this quantity some 80 million francs was of gold imported from abroad and not the production of the country.

That would leave about a hundred and forty-six million francs worth of gold produced in the country and passed through the Mint between 1811 and 1909.

But, as is notorious, according to the relation we have made, seeing that every year a considerable part, and in many years the greater part of the gold was exported without passing through the Mint, in order to avoid expense and the heavy taxes there imposed, it appears reasonable to estimate the gold produced in Chile between 1811 and 1909 at about 250 million francs.

Adding this to the 750 millions at which, as we have related, we have estimated the production from the earliest notices up to 1810, we shall have a reasonably approximate total of 1,000,000,000 francs worth of gold produced in Chile from the earliest times up to the end of the year 1909. This figure of 1,000,000,000 francs may be considered rather moderate than otherwise, for the statistician of the mining industry of Chile, Señor Guillermo Yunge, after studying the matter, estimates that from the beginning of the Spanish colony in Chile alone, this country has produced gold to the value of more or less 1,070,000,000 francs (330,135 kilogrammes) without taking into consideration the time of the Incas during which, it will be remembered, we have estimated the production at 100,000,000 francs. If the public authorities of Chile had known how to retain automatically in the country the gold coinage required for its transactions, something like the 4th part of all the gold produced in the land would have been sufficient. But unfortunately, in almost the whole of the legislation during the past half-century, ignorance of monetary phenomena has prevailed; and that is the reason for the shameful monetary situation in which the country finds itself to-day. (1910).

## Chapter Second.

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### The general situation

The country is fundamentally sound and could easily recover its financial solidity, seeing that it produces capital, if the public authorities knew how to adopt the necessary measures.

We make this statement, notwithstanding the three great disasters that the country has had to suffer during the last few years. These disasters were:

The so-called *Revival*.

The earthquake of August 1906; and

The paper money, which is the oldest of the three catastrophes.

The earthquake of 1906 meant a loss to the country of many millions of *pesos*, on account of the destruction it caused; but as this land is fertile and productive that loss is being rapidly made good.

The so called *Revival* of 1904 and 1905 did much more harm than the earthquake, and its effects on trade were worse.

Between 1905 and 1906 there were formed more than three hundred Joint-Stock Companies with about 600 million *pesos* of capital. Numerous companies were formed without

any serious base. Mining, nitrate, sheep-farming, agricultural and other companies were floated, many of them fraudulent and with no foundation whatever, so that many incautious persons were induced to invest capital and to become compromised in ruinous enterprises.

It must be noticed that the legislation of Chile does not punish the promoters of enterprises recommended by means of false prospectuses, nor punishes the directors that accept office in such companies. It must be recognized however that many companies were founded upon a sufficient basis, but came to grief through faulty administration.

It must also be recognized that in Chile there are to be found very few administrators capable of managing new enterprises, and that unfortunately, as a general rule, there exists more confidence in foreign administrators; but as the latter are frequently nothing but adventurers, they also generally come to grief.

The notorious want of good administrators among Chileans is to a large extent owing to the bad system of public instruction which is here very unpractical.

Those badly-managed enterprises to which we refer had to suffer the dissipation of many millions of *pesos* that were invested in machinery which was afterward abandoned as old iron, on account of having been badly planned, or for not being appropriate to the uses for which it was intended. The loss of capital in that and in many other ways was immense. It is well known also that many undertakings were commenced without sufficient capital for carrying on the object they had in view, and those naturally applied to the banks for loans to complete the resources of which they stood in need.

As many of these enterprises were some time before being productive, and some of them never, the lending banks found themselves in difficulties, not only directly as creditors, but also for the fact of having granted loans or advanced money on the security of the shares of these unprofitable enterprises.

However, all this is being liquidated, and the situation will be saved, little by little, by the adoption of reasonable measures and by the suppression of companies that do not offer sufficient security.

The worst and most prejudicial of all the evils under which Chile labours is the paper money, that does not seem likely to disappear in a correct manner, and that is largely contributing to drive out capital formed in the country and to prevent the entrance of foreign capital for the development of industry and trade.

If the same measures had been adopted in Chile in 1898 as in 1861, how different would the situation of the country be!

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## Chapter Third.

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### The Financial Crisis of 1861

Every country is exposed to suffer from time to time financial and commercial crises; but in those countries that are prudently governed the disorder is not exaggerated by the unnecessary imposition of a forced currency of paper money.

In 1861 Chile suffered a great financial crisis much more violent than that of 1878 or that of 1898; but at that time the country was governed by a man of the calibre of Don Manuel Montt, together with a prudent and circumspect Congress. The national finances were in a healthy condition, there was gold in the Treasury and the Exchequer was owing nothing more than the consolidated loans.

The Bank Law of 1860 had come into force only a few months before, and had not yet had time to do the harm it afterwards caused. The establishments of that kind that had just come into existence belonged principally to private individuals. There were only two in the form of joint-stock companies: the old **Bank of Chile** with a single office in San-



tiago, and the old **Bank of Valparaiso** with a single office in Valparaiso. Both were of recent foundation, their operations were very limited, and neither of them had yet begun to exercise a great influence over a large number of shareholders and numerous clients, and still less over the Congress. Their condition was solid and only one of them, the Bank of Chile, issued notes, and of these a very limited quantity.

Such was the situation of the Exchequer and of the banks when the great financial crisis of 1861 broke out, more violent, as we have already said, than the similar conflicts of 1878 and 1898.

In 1861 the crisis affected almost exclusively those private individuals who had mismanaged their own affairs or who had made an imprudent use of credit. The crisis did not, and could not, extend to the country generally, but only affected certain individuals who were obliged to proceed to liquidation. Many owners had mortgaged their property in the **Caja Hipotecaria** (*Land Bank*) and had invested the money in unproductive or onerous forms, being thereby reduced to insolvency.

Señor J. G. Courcelle Seneuil attributes the crisis of 1861 to routine, ignorance, and defective commercial habits, and not to the want of loaned capital but to its bad investment. He says: "The more one studies the actual crisis, its causes and possible remedies, the more one is convinced that nothing can be expected from palliatives, from expedients, or from the exceptional interference, direct and immediate, of the Government. The whole confusion is brought about in the industrial sphere allotted by the arrangements of Society to the free and responsible activity of private individuals. The latter have committed the fault and they are the ones called upon to expiate and remedy it. If some have obtained loans and others have granted loans injudiciously, they are paying to-day the penalty and are receiving a severe lesson through the sole application of the ordinary laws. These laws of liberty are wise, they constitute the arrange-

ment by which Society is preserved and continues its march of progress: it is incumbent to avoid weakening their power at the moment of trial through which Chile is passing. In proportion as a military situation becomes more difficult, it is more important to respect and to strengthen discipline; the more disturbed an economic situation, the more important it is to maintain the respect for commercial law and to secure its strict execution. This is a necessity of public welfare that neither the Government nor public opinion should lose sight of. All exceptions to the sovereign law of contracts, to the free play of industrial rights, can only prove fatal to public confidence in the development of the productive energies of the country; they would only end in those postponements that augment the evil, partly by suppressing the industrial activity of the country, and partly by the blow struck at integrity and commercial good faith.

All the uncertainties of opinion, every weakness that throws doubt upon the fulfilment of obligations, all delays of execution, cause more damage than is generally believed to that commercial morality which constitutes definitely the whole base of the industrial edifice.

Therefore I think it convenient to leave exclusively to private interests the task of settling the difficulties that arise from the crisis.

It belongs to the creditors to examine each particular case to see if it be convenient or not to grant delay. Collective counsel that would apply uniform rules to different cases, or the interference of legislative authority either administrative or judicial, could only do harm. But were it advisable to give general counsel, the quickest and most radical liquidation possible should be recommended as the surest means of dissipating fatal illusions, of deciding the situation of private individuals and of furthering not only the public welfare but also the private interests of those who offer most resistance to it. This liquidation is also the quickest, surest and most energetic means of infusing into the industry of the country the activity which it needs for

recovering its losses and for laying the foundation of a near and lasting prosperity."

On the disasters caused to private individuals by the commercial and financial crisis of 1861, Señor Concha y Toro has written the following: "Who does not remember the crisis that was preparing before 1860 and that went on developing until its liquidation in 1861? Its ravages may be forgotten by those did not witness it, or who were not its victims; but it is convenient to remember that it ruined many and was the cause of a vast amount of landed property changing hands."

Liquidation followed as a matter of course. The Report of the Exchequer for 1862 describes the situation in the following terms: "The liquidation of private fortunes has been the necessary result of that exceptional situation; and this circumstance, that at present permits transactions to rest upon solid bases, united to the security of public order, has contributed powerfully to restore confidence and to develop trade in a way that already makes itself favourably felt and which, it is to be hoped, may receive every day a greater impulse."

Those who had no money to pay their debts saw themselves obliged to sell their properties in order to meet their engagements. Thus was liquidated the situation in 1861: nobody dreamt of issuing paper money and prejudicing the whole country in order to save a few imprudent individuals. The monetary system was maintained on its gold basis, and the country renewed its march of progress until the monetary confusion that occurred afterwards complicated the situation of the banks.

In subsequent conflicts in Chile that criterion was not maintained. In 1878, and afterwards, in 1898, the wise counsel of Señor Courcelle Seneuil was not taken into account, and as a consequence there was created for the country a situation of permanent discredit, the termination of which no one can at present foresee.

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## Chapter Fourth.

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### Antecedents of the Monetary History of Chile

#### The forced currency

It is well at this point to make brief reference to the monetary history of this country. Before 1834 the monetary system was in a very disorderly condition; after that it was somewhat regulated. By a Law in 1834 it was enacted that the coinage should be continued of doubloons (*dobloncs*), equal to the old Spanish coins of the same name or gold *onzas*, subdivided into  $17\frac{1}{4}$  silver *pesos* and each *peso* into 100 *centavos*.

As we have shown in the first chapter, a great quantity of gold was coined in Chile up to the year 1873. From 1874, on account of the great depreciation of silver, gold bullion and also gold coinage left the country; and in 1878 the gold was all exhausted, only silver money remaining in circulation: a circumstance which at first greatly favoured the creation of inconvertible bank notes, and afterwards the Exchequer notes of forced currency. As silver money was so bulky and inconvenient the notes found favour.

On two occasions during the existence of Chile as an Independent nation, the country has had to submit to a forced currency; in 1879 and 1898.

In both cases two causes had combined to bring about that calamity: the necessities of the Exchequer on account of the excess of expenditure over the revenue, and the mismanagement of some of the banks, owing principally to very bad legislation on bank affairs.

The necessities of the Exchequer have sometimes exhausted the cash of the banks, and on other occasions the banks, to maintain themselves, have absorbed the resources of the Exchequer. This bond of union between the two has been disastrous. Apart from these circumstances there has been no justifiable reason nor motive for imposing on the country a forced currency, with the exception of the time indispensable for meeting the cost of the war of 1879-1880.

There is no doubt that while the remembrance was fresh of the French *assignats* of the 18th century, paper money was looked upon with horror in Chile during the early times of the Independence. To such an extreme was this dislike carried, that in the Report of the Exchequer for 1824, in spite of the scanty resources of the country, the Chancellor Don Diego José Benavente declared that Chile "is a country that has no paper money, nor would admit it except at the point of the bayonet. He who should dare to propose it would be looked upon as a visionary, a tyrant, and even a heretic."

In spite of this, in the quarter of a century that preceded 1850, several attempts were made to put notes into circulation without sufficient security, attempts that the Government constantly suppressed. We shall omit reference to numerous details on monetary questions and on the issue of notes, whenever they have been of little importance or have produced no permanent effects.

We have referred to the period when the monetary organization in Chile was based upon the old gold *onza*, but

the system was confused and little appropriate to the circumstances. The disorder in monetary matters was great.

For this reason, in 1851 a new monetary Law was promulgated that had the advantage of establishing completely the decimal system, but at the same time possessed the great defect of adopting bimetallism, that is to say, of giving a fixed legal value to gold and also to silver according to the proportion then adopted.

Up to 1851, the monetary system of Chile consisted of gold *onzas* and its fractions, of all nations and of every coinage, some of legal weight, many worn by use and many also fraudulently deprived of their legitimate weight; and the silver money was equally heterogeneous and even worse, for it included the *macuquina* or *moneda de cruz*, that is, a piece of silver cut out with the chisel, of no particular shape, there being no two alike, and of a weight only approximate to its pretended value. They were worthy of a museum of antiquities. There were in circulation Spanish and Mexican coins, and coins of all the other States of this Continent, as well as English, French, Portuguese, etc. The legal ratio between the silver and gold coinage was 16 to 1, from the year 1772, in the Spanish countries afterwards independent; but that figure was only nominal.

In view of this confusion the Government proposed to fix definitely the value of the monetary unit, and after many investigations and reports, adopted as a basis the rate of the produce in Europe of the money in circulation in Chile, in order not to affect the existing relations between debtor and creditor. About the year 1820 the money that circulated in Chile, when remitted to Europe produced 48d. per *peso*; but in 1850, from wear and tear and other causes, that coin had lost weight and consequently produced less than 45d. per *peso*. Between 1848 and 1850, the Government remitted to London 1,202,234 *pesos* in the heterogeneous money of gold and silver then in circulation, and that remittance produced £223,895 being an exchange of 44.7d. per *peso*, the gold and the silver together. For this reason, according to the Mon-

etary Law of 1851 based on that fact, the gold *condor* of 10 pesos was coined with a value of very nearly 45d. per *peso*. Thus neither debtors nor creditors suffered loss.

For the silver coinage nevertheless, the new Monetary Law adopted as the basis the French money of 5 Francs, or 25 grammes of silver 9/10 fine, equivalent to  $22\frac{1}{2}$  grammes of fine silver; the proportion of the new gold coinage thus being 16.39 to 1.

This was illogical and a fatal error. Also the promulgation by the Chilean legislators in 1851 of a bimetallist law was an unpardonable error when already the "Letters of Lord Liverpool to the King" of England were well known, in which were set forth in full detail the grave inconveniences of adopting two metals as the basis of a monetary system.

The Law of 1851 enacted that: "the gold *condor* shall weigh 305.540 grains\* or 15.253 grammes (of 0.9 fine) and shall correspond to 10 silver *pesos*."

The gold *peso*, the tenth of the *condor*, was then worth in the market a fraction less than 45d., and the silver *peso* a little more than 47½d., (with bar silver at 61d. the ounce).

The new Monetary Law ordered the equivalence of the two distinct values. That was a fatal error that twenty-five years later proved disastrous to the country!

In 1851 some feared the depreciation of gold, others that of silver, and so they passed a Monetary Law that gave no pre-eminence to either metal. They attempted to dictate a bimetallist law, but the gold peso and the silver peso, from their origin, differed very much in commercial value.

"Legally the monetary unit was silver, the multiples of gold, the sub-multiples of silver; but commercially the gold and silver coins, not being proportioned to their nominal values, formed two distinct systems. We had by this Law the silver *peso fuerte*, the gold *escudo* equal, according to the

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\* Old Spanish.



Law, to 2 *pesos fuertes*, and the gold *condor* equivalent, according to the Law, to 10 *pesos fuertes*. The smaller coins (of silver) were of 5, 10, 20, and 50 *centavos*.

So that in the language of economists Chile became, by the above Law, a bimetallist country: that is to say a country in which gold and silver might be coined indefinitely, and in which all obligations might be cancelled indifferently with the gold or silver coins created by the Law." (Espinosa).

The Law of January 9th 1851, in giving Chile a monetary system formed of gold and silver, fixed between the two coinages a ratio different from that between gold and silver in the universal market; and thus, to the silver *peso fuerte*, the monetary unit, it gave 25 grammes weight, 0.9 fine and 0.1 of alloy, containing therefore  $22\frac{1}{2}$  grammes of fine silver; while to the gold *peso* although not created by that Law, nor coined by a disposition of the Government, there corresponded a weight of 1.5253 grammes (seeing that it was the 10th part of a condor whose weight was 15.253 grammes of 0.9 fine). So that to each gold *peso* there corresponded 1.37277 grammes of fine gold.

Therefore the ratio established by the Law of January 9th 1851 between the silver *peso fuerte* and the gold *peso* was as follows: one *peso fuerte* containing  $22\frac{1}{2}$  grammes of fine silver equivalent to 1 gold *peso*. 1 gold *peso* contained 1.37277 grammes of fine gold. Reducing to unity the fine gold contained in each gold *peso* the legal ratio stood as follows: 1 gramme of pure gold equal to 16.3902 grammes of fine silver. The ratio between gold and silver in the universal market during the quinquennium (1851-1855) was 1 to 15.42.

In other words, there was an excess of fine metal in the Chilean silver *peso fuerte* with respect to the gold *peso*, of 0.9702 grammes.

Putting into English money the gold and silver Chilean coins, and having regard to the market value of both metals, their respective values stood as follows:

1 *silver peso* equal to 47.8239d.

1 *gold peso* equal to 44.9942d.

The ratio in the market value between silver and gold had risen in 1859 and 1860. In those years the *silver peso fuerte* was worth more than 48d.

In 1866 the price of silver (61d. per oz.) was still higher than that of gold, with regard to the legal ratio established by the Monetary Law of 1851. There was an abundance of gold in circulation and the silver money, which was worth more than the gold, was exported. The exchange on London, based on the *silver peso*, was quoted at 46 and sometimes 47d.

Soon afterwards silver began to be produced in abundance in several parts of the world and the depreciation of that metal commenced.

In 1875 silver was worth, in London, only 55½d. per oz., and in 1876 only 52½d. The exchange in Chile, founded on the *silver peso*, having for this reason descended to below forty pence, and even to 37d. in 1878, gold was now not to be seen in circulation: for it had totally disappeared between 1874 and 1877. The *gold peso* was worth about 45d., that is to say considerably more than the value of the *silver peso* that now was worth less than 40d. The monetary situation of the country was completely upset. In 25 years the bad Monetary Law of 1851 had produced fatal consequences.

That defective Monetary Law authorized everyone to cancel their obligations in gold or silver money at will; and as the latter was worth less than the former they paid in silver and reserved the gold that, for that reason, was not circulated. Thus Gresham's Law of the Coinage was verified. In 1878 the bad monetary situation was complicated in Chile with bad bank administration. The writer of this essay, criticizing the bank law then in force, made the following observations in a pamphlet published by him in 1886: "the character and the tendency of that Law is to allow the directors of each Bank of Issue that contracts with the public the obligation to pay the notes they issue, to invest their

capital and the money they receive for those same notes, in whatever form convenient to themselves, taking into little account the public or their creditors: and as charity begins at home... we shall soon see what has happened. The Law permits, not liberty, but disorder; and as the tendency to abuse in the issue of paper money exists in Chile, as in other countries, those who have thought to profit by it have issued notes in indiscriminate profusion.

The logical consequence followed; the mismanagement of the National Bank of Chile drove its directors in 1878 to solicit from the public authorities the inconvertibility of its own bank notes. That bank in its operations had gone beyond its resources. In our pamphlet on the Chilean Banks we said in 1886: "The National Bank of Chile, which was the one that solicited the inconvertibility, as is well known, had divided among its share-holders in  $12\frac{1}{2}$  years, from its founding, up to June 30th 1878 (the Law of Inconvertibility of its bank notes was promulgated on July 23rd) 228% in dividends, or an average of 18.2% per annum during the whole period. It is true that the bank was strictly within its rights according to the Law, seeing that this fixes no limit to the dividends; but the fact is that the bank had weakened itself considerably, because in order to pay the dividends it had to make use of its cash in reserve, and to meet the notes and other obligations there remained the bonds, mortgages and balances of current accounts, etc., many of them of more or less difficult recovery. This situation of the National Bank of Chile in 1878 was aggravated by other circumstances.

While the financial situation of the country went from bad to worse on account of the excessive issue of bank-notes by all the banks in general, the directors of the same bank also exceeded themselves in their private business. Whereas the capital of the bank was then \$4,000,000 (20,000,000 francs) the loans that the directors had granted to themselves, according to the balances published, were as follows:

On April 30th 1877.. . . .	\$1,696,687
„ May 31st 1877.. . . .	\$1,763,140
„ May 31st 1878.. . . .	\$1,783,491
„ June 30th 1878.. . . .	\$1,827,912
„ July 31st 1878.. . . .	\$1,960,019

That is to say, that while the situation was growing worse, the directors of the bank supplied themselves more abundantly and in the last month mentioned, when the Law of Inconvertibility was promulgated, they augmented their own account by more than 100,000 *pesos*; and the most critical moment arrived when they had already loaned to themselves half the capital of the bank.”

In those circumstances the bank also allowed the Government to overdraw its account considerably, which they should not have permitted, because they had not sufficient funds for such disbursements.

All these facts make evident the mismanagement of the bank at that time, and if we refer to them now it is because they have been the cause of very great harm to the country.

The debt of the Government served the bank then as a pretext for bringing pressure to bear on the Congress in order to wring from it the Law of Inconvertibility.

Nothing was said about the weakening of the bank by its own directors and shareholders.

The inconvertibility of the bank's notes was urgently solicited, alleging the want of metal in its coffers. Instead of following the example of the rulers of 1861, that enormity was granted. The consequences were disastrous for the country. As it was necessary to give the public some reason that should not be disgraceful, the famous theory was then invented of the adverse balances of the “**Balance of Trade**” in order to explain the absence of metal in the Bank's vaults. It was said, and the public believed it, that the metal had been exported for the payment of goods. The advocates of paper money in Chile still uphold that theory, and contin-

ually proclaim it whenever anyone proposes the restoration of a metallic currency.

We shall discuss this point more fully in another chapter. It is sufficient for the moment to relate a personal incident. On the morning of July 24th 1878, Señor Don Guillermo P. Wicks, then managing-director of the National Bank of Chile, entered the office of the writer, in Valparaíso, and said to him: "Now we are safe; last night the Law was passed for the Inconvertibility of our notes." "And are you not ashamed of what you have done?" was the only reply vouchsafed by the author of this essay.

In 1879 the war of Chile against Peru and Bolivia broke out, and the Government issued fiscal paper money to meet the cost. The notes were issued on the understanding that they would be redeemed in *silver pesos* and not in gold coin that, as we have explained, no longer circulated in Chile: It had disappeared, in conformity with Gresham's Law of the Coinage. In addition to the Exchequer notes of forced currency there continued also in circulation for some time the inconvertible notes of the banks. From that time also the market value of silver went on decreasing sensibly for some years and the value of the notes, nominally payable in silver *pesos*, naturally continued to descend also.

Up to 1890, owing to the belief of the public that the notes would be redeemed some day in silver *pesos*, the exchange based on those notes kept more or less parallel with the value of silver, but always lower.

In 1891, on account of the Civil War in Chile and the new issue of paper money, all confidence was lost, and also all relation between the exchange based on the paper money and the real value of the silver *peso*. The quotation of paper money fell much lower.

In 1892 appeared the project of effecting the Metallic Conversion on the basis of gold money, demonetizing silver.

We shall treat of this event in the next chapter.

## Chapter Fifth.

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### The Metallic Conversion of 1895

In 1892 the idea of converting paper money was again agitated in the Press and in the Congress, and the result of that movement of opinion was the successful realization, in 1895, of the Metallic Conversion in the face of much resistance and in spite of some obstructions. The Laws that brought about the Metallic Conversion were four in number, promulgated on November 26th 1892, May 13th 1893, May 31st 1893 and February 11th 1895.

Although some of those laws modified certain details in former ones as the circumstances recommended, the general plan of conversion established by the Law of November 26th 1892 was maintained.

That general plan consisted:

1st.—In abolishing the uncertain silver standard of value that, as a matter of fact, had imposed itself upon us, and in legalizing definitely the gold standard. The gold standard was established by the Law November 26th 1892 and confirmed by the Law of February 11th 1895. According to the

Report of the Exchequer "On drawing up that project there was unanimity of opinion in favour of adopting a gold standard, together with the coinage and limited releasing power of silver money as an auxiliary.

In this way the development of our commercial relations with abroad was facilitated and assured, avoiding the embarrassments to which an extremely uncertain standard<sup>1</sup> of value may give rise."

2nd.—In fixing the value of the new gold coin, which was the peso of 24d. according to the Law of November 1892, but reduced to 18d. by the Law of February 1895.

3rd.—In fixing by law a day for the commencement of the cashing of the Exchequer notes for gold money.

The Law of November 1892 appointed for that purpose the 1st of July 1896, but the Law of February 1895 anticipated the day and designated the 1st of June 1895. Indeed, an operation of that magnitude cannot be conceived without fixing the day of its commencement so that everybody may know what to do. By the anticipation of the date to June 1st 1895 it was managed that the Conversion should be initiated before the expiration of the Government of President Sr. Don Jorge Montt (Septembre 18th 1896), thus avoiding the intervention of another government that might have opposite economic opinions.

Subsequent facts proved that this was a shrewd precaution.

The Law of November 26th 1892 had its defects. In the first place, Articles 5 and 6 of that Law, that ordered \$3,000,000 in gold money to be put into circulation in each of the four half-years of 1894 and 1895 "if the average rate of international exchange should not have fallen below 23½d. during the previous six months," were absurd. Seeing that the monetary unit created by the same Law was worth 24d., and that the cost of shipping, insurance and other expenses incurred in transmitting the gold to Europe amounted to ½d. the bank exchange or **gold-point** could not ordinarily go beyond 23¾d. per peso, paying the drafts in gold; and never-

theless the legislators imagined that the inconvertible notes *that nobody then paid* might reach the value of 23½d: that is to say, more than the **gold-point**. Also the legislators forgot the well-known **Gresham's Law** which shows that gold cannot circulate at par simultaneously with a forced currency of inconvertible and consequently depreciated notes.

The Law of May 12th 1893 derogated those confusing and absurd dispositions. The Law of November 1892, as well as that of May 31st 1893 that modified the former, provided for the payment, in certain cases, of the fiscal notes, in silver *pesos* of 25 grammes weight and 0.9 fine; while at the same time they created as the monetary unit the gold coin of the value of 24d. These dispositions were confusing and although they were reproduced by the Law of February 1895 they remained as a matter of fact inoperative.

Articles 1, 2, 3, and 4 of the Law of November 26th 1892, provided for the issue of international bonds to the value of £1,200,000, at the rate of £50,000 monthly.

Part of the produce of these bonds was to be devoted to incinerating up to \$10,000,000 of the Exchequer notes, the total of which would thus be reduced to more or less the quantity legally issued before 1891. Experience soon proved that to be a mistake, for the country needed already more circulating medium, and the simple incineration of those notes was not convenient because what was needed was the substitution, in their place, of the new gold coinage. That incineration of notes was suspended at the beginning of 1893 and consequently the issue of international bonds was also discontinued. Señor Mac Iver had said in Parliament "probably the Bill under discussion has defects of detail: but... it should not be difficult to correct them whenever they appear in practice." Indeed they were remedied by Acts of the Executive and by the Law of May 13th 1893.

Recognizing that to be a defect of the the Law of November 26th 1892, it must be acknowledged that there was not sufficient motive to justify the great excitement then produced. Only the sum of \$ 1,204,748 in notes was incinerated,



a very small amount that did not justify the cry of "*the banks are left without cash*," that was then proclaimed on all sides.

The truth is, that there was produced in the public mind a certain nervousness that the tenacious partisans of the paper money fomented and endeavoured to turn to account, not only with the object of causing the Metallic Conversion to be abandoned, but to bring about the increase of the issue of paper money. The long subsistence of the forced currency in Chile had created interests in favour of this lamentable regimen.

The firm resolution of the President of the Republic and of the successive Chancellors of the Exchequer that accompanied him in the Administration, to carry into effect the Metallic Conversion, overcame all difficulties, and also cleared away the obstructions that arose or that were invented by the tenacious advocates of the paper money.

An effort was made to save the monetary system at the half of its primitive value of more or less 48d., by adopting the gold coin of 24d.; but this did not succeed, because the value of bar silver went on rapidly decreasing and because the inveterate enemies of the Conversion brought about the great agitation to which we have referred; it was necessary to make a compromise.

The exchange on London, quoted in inconvertible notes, was estimated on Nov 26th 1892, the date of the Conversion Law, at 18½d. On May 9th 1894 it was quoted at 10½d., that is to say, that as the date drew near for the payment of the notes at 24d., those same notes had suffered an enormous depreciation. The cause of this remarkable anomaly was, that on account of the great agitation produced, the majority of the public lost confidence entirely, believed that the Conversion Law would be totally derogated, and that there was no hope of establishing a rational monetary regimen. Besides this, the administration of the National Bank of Chile was then decidedly absurd. Not being able to dispose in Europe of more than limited resources, it adopted nevertheless in Chile the system of opening credits to clients or non-clients

who made immediate use of this credit to solicit from the same bank drafts on London, of which not only were they in no urgent need but that in many cases were intended as a means of protecting themselves against the circumstances.

In fact, the Bank opened credits so that from its own resources drafts on London should be demanded to an amount which it could not satisfy; and in order to defend itself from those demands it continued to bear down the exchange, thinking by this means to diminish the demand for drafts, and, as we have said, arrived at the extreme of fixing the rate of exchange at 10 $\frac{3}{4}$ d. for the paper *peso* on March 9th 1894.

In short, it was nothing but an unreasoning panic, fostered to a great extent by the advocates of the paper money, in order to produce disorder, and fomented also by the political hatred against the President of the Republic and his friends.

The Report of the Exchequer for 1892 contains the following: "The obstacles in the way of the Law of November do not arise from its particular dispositions, but from its very object.

Any other Law on the abolition of the forced currency and the resumption of payments in specie, would have met with the same obstructions."

As the date fixed for the definite withdrawal of the paper money drew near, the resistance grew greater, and it was necessary to dictate the Law of February 11th 1895. It must be recognized that the great fall in the price of bar silver (39d. per oz in November 1892 and 31d. in February 1895) was another disturbing factor, but not so great as to justify the agitation noted at the beginning of 1895.

The Report of the Exchequer for 1895 says: "In fact, taking as a basis the price of this metal at the time of the discussion of the Law of February, the conclusion was arrived at that the silver *peso* of 25 grammes, 0.9 fine (deducting the interest for the time established between the provisional and the definite conversion) represented a value inferior to

18d. In this manner, by authorizing the immediate payment in gold with pesos equivalent to that number of pence, the holders of notes were placed in advantageous conditions for the cashing of their paper, thus removing all inducement to the concealment of the fiscal paper; and at the same time the principle was maintained of the integral and definite payment of the State's obligations at a date two years nearer than that fixed by the Law of 1893.

According to the provisions of the Law of February 11th 1895, the payment in metallic money of the fiscal notes and those of the banks, commenced on June 1st 1895; and within a little more than a year the notes of both issues, fiscal and bank, were withdrawn from circulation and replaced by gold and silver money; there only remained in the hands of the public a small proportion of notes not presented and in part destroyed.

The Report of the Exchequer says as follows: "Affairs being in this situation it can be truly said that the Metallic Conversion is a completely established fact with regard to which there is no possibility of reaction, seeing that for the withdrawal of the small amount of paper money still in circulation there exists in the Mint a quantity of metallic money more than sufficient for the withdrawal of up to the last Exchequer note..."

The metallic circulation is then consolidated. The prudence and economy of the Government and of private individuals will do the rest.

The result of the renewed confidence has produced some fruits. The banks have renewed with prudence and discretion their almost paralyzed operations, and interest and discount have returned within limits that, if they are not yet completely satisfactory, may be considered relatively moderate.

The Metallic Conversion has been able to be realized without the necessity of disposing of certain funds that the laws, or their interpretation, assign to it."

In spite of these explicit declarations of the Chancellor

of the Exchequer, the obstinate partisans of the inconvertible paper money continued attacking the operation, and still persevere undismayed in their ungrateful task.

They try to make believe that the operation of the Metallic Conversion effected in 1895 was onerous and disastrous for the country.

One of the most stubborn advocates of paper money in the Congress, the senator for Curicó, during the session of Aug. 23rd 1909, ventured to make the following statement: "Then the Conversion was realized in 1895, inspired also by the foolish financiers that were the advisers of the Government at that time, and to carry out that adventure some 100,000,000 of pesos were dissipated."

This declaration is maliciously and entirely inexact.

What was done in 1895 was the most rational thing that could be done: The Chilean Exchequer owed for a quantity of notes issued with the promise of paying them, and they were, in effect, paid in gold.

That debt was paid in gold coin, as had been promised by the Conversion Laws of 1892 and 1895.

The funds for paying the Exchequer notes were collected in sufficient quantity in the easiest and most economical manner: reserving a part of the revenue of the Custom-House and selling a part of the Nitrate Fields acquired from Peru and Bolivia as a war indemnity. It is notorious that the fiscal notes were issued to provide funds for that war with Peru, which was in every way successful.

It is officially recognized that there existed sufficient resources to pay the fiscal notes.

The Report of the Exchequer for 1893 established the following: "In spite of the impulse given to all public works, the Revenue of the State will leave in the current year a superavit that, without exaggeration, may be estimated at more than 12,000,000 pesos of the national money, without including in this figure any part whatever of the income destined by law to the formation of the Conversion Funds, as for instance the produce of the sale of Nitrate Fields that

cannot be estimated in less than £2,500,000 and that, without the least inconvenience, could be totally set apart to form the Fund intended for that object.

With these sums, with the produce of the 25% of the Custom-House revenue payable in gold, already received and that will continue to be received during this year and the next, it is almost certain that on the date fixed for the Conversion there will be approximately 40,000,000 gold pesos of 24d. a sum much greater than that required for effecting the Conversion without the least risk."

The increase of the consolidated public debt for the payment of the notes was insignificant. This proves that the accumulation of funds for the payment of those notes was not onerous to the country.

Also the new coinage created for the realization of the Metallic Conversion in 1895 has been severely criticized, but without reason.

The first Law that was promulgated in November 1892 for the carrying into effect of that operation, established that the notes should be paid in gold *pesos* of the value of 24d. There were then well-founded and just reasons for adopting as the basis a coin of that value.

The writer of this book in a publication in 1894, expressed himself in the following terms:

"By virtue of the dispositions of the Monetary Law of 1851, all commercial documents were drawn up in Chile as payable in gold or silver coin; and when the banks began their issue of notes they followed the same custom that unconsciously lasted during many years in spite of the fact that, from 1875, as I have said, the only Metallic money in Chile was silver.

When the new Law of the Inconvertibility of the bank notes was dictated in 1878 we were in that situation; and when in 1879 the State paper money was issued in order to obtain resources for the war against Peru and Bolivia, the notes were drawn up, unconsciously without doubt, as payable in silver or in gold; but in reality nobody then expected

the Conversion other than in silver because there was no gold in the country; the gold had been driven out in consequence of the defective Monetary Law, as we have explained.

The whole of the subsequent legislation of the country shows nevertheless that during those years silver money only was contemplated; the Law of March 14th 1887, destined to the restoration of the Metallic Currency, ordered the accumulation of bar silver for carrying out the operation.

Abroad it was a recognised fact, and accepted by competent authorities, that the monetary system of Chile was based on silver. This was attested in London by Henry Gibbs Esq. and Stephen Williamson Esq. before the Parliamentary Commission appointed for inquiring into the causes of the relative alterations in the values of the precious metals.

The same thing therefore happened in Chile that had occurred previously in England: that the circumstances imposed the monetary standard of one metal alone, with the difference that in England it was gold and in Chile silver. When our Monetary Law of 1851 was promulgated, the silver *peso* of 25 grammes of 0.9 fine, was valued approximately at 47½d.; but when the Conversion Law was promulgated in November 1892, its value had descended to about 29d. But as the depreciation of silver steadily continued, and with the object of securing and re-establishing a fixed measure of value, it was decided to adopt in that Law the *gold peso* of 24d. as the unit of calculation of our new monetary system; and so it was established.

This measure has been greatly and very unjustly criticized, even to the extent of being declared an offence to public faith; which is entirely inexact.

The Government of Great Britain contemplated in the same year 1892 a similar operation with regard to India, as the following document proves.

'The measure recommended is that the Government should be authorized to prohibit to the Indian Mints the free

coinage of silver money so long as the rupee does not rise in value until it acquire a fixed ratio to the sovereign, which ratio must be a little higher than that which has prevailed up to the present (1s. 4d.); and that then it should be an obligation to give rupees in that proportion in exchange for all the gold brought to the mints. This measure would have the immediate effect of altering the measure of value in India.

The alteration of the measure of value by substituting one metal for another, is always a very serious question, and to make it when the relationship between the two metals is in a state of constant fluctuation is a still more serious affair.

At the same time it must be observed that the means we recommend will bring about for the moment the least change possible.

Its object is not so much to procure a rise in the gold value of the rupee, as to prevent its further depreciation. It does not alter materially the actual relations between debtors and creditors but, on the contrary, prevents these relations being altered in the future by a still greater depreciation.

Besides, the consequence of this measure will be that in case of a scarcity of currency, that scarcity will be remedied automatically and not at the discretion of the Indian Government.'

Events subsequent to the promulgation of the Conversion Law in Chile showed that we were right in prognosticating the imminent fall in the price of silver; and as the *peso* of that metal is at present only worth about 23d., it follows that the Conversion Law, far from having repudiated a part of the value of our money, has restrained at 24d. its steady depreciation, establishing a fixed basis that previously did not exist.

Without being aware of what was taking place at the same time in the official commission appointed to study the monetary questions of India, we adopted by legislation in Chile the same measure that was officially proposed in Eng-

land; that is to say the fixing of some limit to the continued depreciation of the money.

Apart from the preceding considerations, we have to contemplate the fluctuations of exchange in Chile based upon the inconvertible paper. In 1878 when the inconvertibility of the Chilean bank-notes was declared, the average rate of exchange was 39.75d. per peso, and in 1879, at the time of the issue of the paper money of forced currency, the average rate of exchange was 32.89d. From this date up to 1892 the alterations were very varied, but there was a general marked tendency to fall. When the Conversion Law was dictated in 1892 the exchange was quoted at more or less 19d.; but the average from 1879 to 1892 inclusive was 27d.

So that all the circumstances coincide to show that the basis adopted of 24d. gold was the most reasonable and the most equitable that could be found, because that is a figure very approximate to the average between 27d., the exchange that prevailed between 1879 and 1892, the rate of 19d. in November 1892, and the real value of the price of the silver peso that on that date might be estimated at 29d. The average of these three figures is 25d. The peso of 24d. then adopted as the basis of the Conversion is consequently, and in my opinion, perfectly justified."

The average rate of exchange during the 14 years of forced currency was 25.87d.

The silver peso was worth 25.9d. in 1892.

Don Roberto Espinoza, in his book, "*Financial Questions*" page 436, establishes the following.

"The rate of international exchange in 1887 fluctuates between the extreme figures of 25 $\frac{1}{4}$  and 23 $\frac{3}{16}$ . The average was 24 $\frac{1}{2}$ d.

The extreme figures of the rate of exchange in 1888 are 25 $\frac{1}{16}$  and 28 $\frac{1}{2}$ . The average is 26 $\frac{1}{4}$ .

The rate of exchange fluctuates in 1889 between 24 $\frac{2}{3}$  and 29 $\frac{5}{16}$ . The average is 26 $\frac{9}{16}$ .

Shortly afterwards Peru adopted as the unit of calculation in her new monetary system, that actually prevails,



the *peso* or *sol* of 24d., and the Argentine Republic adopted the ratio of 22d. as the basis of exchange of her notes for gold from her Conversion Fund.

By a Law of March 26th 1897, Japan also modified her monetary system, which was bimetallist similar to that of Chile. For the same motives as in Chile her silver money fell to the half of its value, and in order to regulate the situation Japan likewise reduced by one half, the weight in pure metal of her gold *yen*. Silver was demonetized and a new monetary unit created: the gold *yen* of the approximate value of 24d. From that time the exchange in Japan has maintained its stability.

Japan devoted to the payment of her notes part of the war indemnity obtained from China. Chile allotted for the same purpose part of the produce of the sale of the Nitrate Fields also obtained as a war indemnity.

As may be seen, up to this point, the proceedings were equal, as was reasonable, but Japan was consistent: Chile not. Japan terminated the exchange of her notes on July 31st 1898, at the very moment when the Chilean Congress was intriguing for the restoration of paper money.

What an enormous contrast!

The great agitation produced in Chile after the promulgation of the Law of November 1892, and the fact of a still further considerable depreciation of bar silver, compelled the acceptance of a new modification of the monetary system.

In November 1892 when the Law was passed creating the *peso* of 24d., the value of bar silver in Europe was 39d. the oz.

In February 1895 the monetary law was reformed and the gold *peso* of the value of 18d. was created for the payment of the notes. In that same month the price of bar silver had fallen to 27½d. per oz., and as the Exchequer notes were in fact payable in silver pesos, that circumstance justified, up to a certain point, the abandoning of the *peso* of 24d., which value was now excessive having regard to the depreciation of the silver *peso*.

The Exchequer Report of that year justified the creation of the new money of 18d., in the following terms:

"One point only in the discussion of this Bill, and of the Law which it originated, was a motive for marked divergence of opinion, a divergence that was happily arranged on equitable conditions for the different interests compromised.

The Laws of 1892 and 1893 had established the value of the gold peso intended for the monetary unit at 24d., and this appreciation that indeed exceeded considerably the value attributed to the peso in commercial transactions, constituted the principal stumbling block to the viability of the Conversion.

The acceptance of that figure, it was said, would be the cause of confusion in the economic situation of the country, duplicating at once, and by an act of legislation, the amount of the values in circulation, to the manifest disadvantage of debtors whose liability was thus doubled.

On the other hand the necessity was argued of respecting the obligations imposed by a currency whose legal value was much greater even than that indicated by the new monetary unit, and the rights created under the protection of those obligations in numerous operations.

Among the several opinions held for finding the value more acceptable from the actual rate of exchange up to the date already established by the Laws of 1892 and 1893, it was resolved at last, by a patriotic effort of the authors of the Bill, to indicate two bases so that the Congress might choose which of the two it considered preferable; proposing a peso of the value of 16 or of 18d. The latter was the one accepted by Law, and is the one that has served for the coinage of the new money and for the fixing of the price of the £ sterling admitted provisionally as legal tender."

Don Roberto Espinoza says:

"The coin of 18d. was created, that corresponded neither to the value of the silver money, nor to the gold, nor to the average rate of exchange during the last 17 years, nor to average exchange during the last ten years, nor to the average

price of silver during the last 17 years nor, in fact, to anything."

Once the question of the value of the money with which the notes had to be paid was resolved, the accumulation of the necessary funds was proceeded with in conformity with the Laws that had been dictated.

The Exchequer notes that had to be paid in gold were as follows:

Treasury Bonds .. .. .	\$ 8,898,728
Notes payable to bearer .. .. .	29,601,242
Total .. .. .	<u>\$ 38,499,970</u>

The funds with which those notes had to be paid, according to the Law, would consist of:

- 1.—The bar silver existing in the Treasury.
- 2.—25% of the import duties collected by the Custom-House.
- 3.—The produce of the sale of certain nitrate fields.

According to the Exchequer Report of 1896, the sums collected under these headings were the following:

1.—Bar silver in existence in 1892 . . .	\$ 4,319,226.15
2.—25% of the import duties received by the Custom-House from January 1st 1893 to July 1st 1896. . . .	\$ 20,304,956.00
3.—The paid-up part of the value pro- duced by the sale of nitrate fields	\$ 14,884,541.24
	<u>\$ 39,508,723.39</u>
Nitrate obligations discounted . . .	\$ 14,423,567.43
Sale of nitrate residues . . . .	40,000.00
	<u>\$ 53,972,290.82</u>

Less amount returned on account of  
nitrate obligations discounted and  
not met opportunely by the debtors \$ 15,693,333.33

Nett value . . . . . \$ 38,278,957.49

Besides this there remained to be recovered the sum of \$ 9,567,388.76 of the balance of the value of the nitrate fields that the Law had allotted to the Conversion Fund, and that was never needed, because some notes were never presented for payment, being probably destroyed. With this surplus of more than 9 million pesos could be paid off also the £149,000 of International Bonds issued in 1893 in payment of a part of the Exchequer notes withdrawn from circulation, and which was the only debt contracted for the payment of the notes. And further still: part of the ordinary revenue of the nation destined by law to the payment of the Exchequer notes was absorbed by the ordinary expenditure of the army and navy.

The Exchequer Report for 1896 says: "According to the dispositions of Article 9 of the Law of November 26th 1892, of Articles 5, 6 and 8 of the Law of May 31st 1893, and of Article 22 of that of February 11th 1895, during the year 1895 and the first half of 1896, 25% of the customs duties and bonded warehouse rents had to be recovered in gold and that sum deposited in the Mint.

This was not carried out, either for economic reasons that prevented the recovery in gold, or because the extraordinary increase in the Army and Navy Budget demanded that those sums, estimated approximately, at \$9,000,000, should be invested in covering the expenditure authorized by the Budget and by special Laws. If that had not been done the Exchequer Balance of 1895 would have left no superavit, and that of 1896 would have shown necessarily a deficit of several millions.

The sum corresponding to 25% of the above-mentioned duties has continued to figure since 1895 among the revenues destined to cover the expenditure of the Budget and that authorized by special Laws, some of which were of an exceptionally extraordinary nature."

So also the extraordinary expenditure of the Nation in 1897 absorbed a great part of the auxiliary funds of the Conversion.

The Exchequer Report corresponding to 1898 contains the following.

"The considerable extraordinary expenditure of the past year has prevented the fulfilment of Article 5 of the Law of May 28th 1895, according to which the sums received by the Exchequer, proceeding from Conversion Bills, ought to have been destined from July 1st 1896 to the extraordinary extinction of the foreign debt."

It follows from all this that the Conversion Fund left a considerable surplus for other purposes, and that the Exchequer Report of 1895 is justified in declaring:

"We believe that few nations will have succeeded in abolishing the forced currency and withdrawing the paper money, with less sacrifices than Chile has had to make without damaging our credit nor compromising the future."

And nevertheless this was the operation that the advocates of paper money in Chile proclaimed ruinous to the country!

The preceding data prove that the payment of the Exchequer notes was effected in 1895 with the bar silver in existence in the Treasury and accumulated for that purpose, together with a part of the 25% of the import duties received by the custom-houses, and a part of the value of the Nitrate Fields sold, there being a surplus of more than 9 million pesos of those sums that went into the general revenue of the nation, besides that the ordinary expenditure of the country in 1896 and 1897 absorbed a considerable part of the Conversion Fund that was not needed for the payment of the notes.

And this proves also that the audacious statement of the Senator for Curicó when he said that "*to carry on that adventure some 100,000,000 pesos were dissipated*", is entirely without foundation.

The necessary measures having been adopted for the total payment of the fiscal notes, there remained the problem of securing the opportune conversion of the bank-notes in circulation.

In a rational state of affairs, with a bank legislation more adequate to the necessities of the country, it would have been officious on the part of the Government to concern itself with the manner in which the existing banks met their engagements: that ought to be an elementary duty of each institution, and to be effected with its own resources.

But these things have been and are still very disorderly in Chile on account of the actual faulty legislation: the Chilean banks have often been very badly managed, they have gone beyond bounds in their operations, they have placed themselves in difficulties, and for thirty years have been demanding the support of the Exchequer.

When the moment arrived for carrying into effect the Metallic Conversion, the public authorities considered it their duty to come once more to the help of the banks, to prevent the inconversion of the bank notes simultaneously with the payment in gold of the Exchequer notes causing confusion and a sure conflict.

Such was the motive and the principal object of the loan of £2,000,000 authorized by the Law of May 28th 1895, that was almost entirely absorbed by the banks in those difficult circumstances. On this matter the Report of the Exchequer for 1894 states the following:

“With the object of avoiding difficulties arising from the fiduciary paper of the banks, it was necessary to clothe it with all kinds of guarantees so that it might continue in circulation together with the metallic money, and thus avoid the restriction of the currency that might be the cause of serious perturbations.

To carry out this object, at the same time that the issue of bank-notes was limited to 24,000,000 pesos, the obligation was imposed of guaranteeing it fully with securities that, appreciated prudently by the Government, might provide full security of reimbursement. This result being assured, the admissibility of the bank-notes into the coffers of the Treasury in payment of duties, public credit and services, was established, the State also contracting the obligation of

payment on demand of the notes of the issuing banks that might have suspended payment.”

The course of events showed that in order to prevent disorder and a great conflict, it was not only necessary to help the banks to cash their notes, but also to help them to reimburse a considerable part of their deposits.

The operation of the Metallic Conversion fundamentally consisted only in the payment by the Government of the Exchequer notes, substituting gold for paper; and on that basis to leave the banks and private individuals to attend each one to his own obligations. For that purpose the resources allotted by the Law of May 31st 1893 were more than sufficient, and no loan was necessary.

We wish to make this clearly understood, because on several occasions the public has been misled by totally erroneous asseverations that the Metallic Conversion increased the national debt by a considerable amount.

In the discussion in Parliament of the Bill authorizing the loan of 2 million pounds, it was clearly laid down that the money was not required for the payment of the Exchequer notes, but to aid the banks.

That loan produced \$24,333,333.33.

The writer of this book, made in the Senate the following observations: “The resolution of carrying out the Conversion seems to be inalterable in the mind of the Government and in the majority of Congress and of the country. The question is decided, and a gold standard has been adopted, the date has been fixed for June 1st, that is very near, and all the necessary funds have been accumulated for realizing the Conversion of the fiscal notes.

In spite of what may be said to the contrary the operation will undoubtedly be brought to a successful issue, provided also that a complete conversion is effected.

On these conditions, the Conversion will undoubtedly bring about definitely the Metallic Currency in spite of the contrary asseverations of those who endeavour to obstruct this important reform.

But what we are discussing now is the Bill for the loan of £2,000,000 solicited by the Executive.

That contemplated loan is destined solely and exclusively for assisting the banks that may need and solicit that help, that they may tide over what we may call the conversion crisis.

I express myself thus because I think it is now useless to beat about the bush with regard to the real destination intended for the £2,000,000. It is necessary for the country to know clearly the reason and the object of our vote, which is no other than I have indicated.

This project of contracting a loan, compromising the credit of the State in order to pay the private debts of the banks, is doubtless at first sight an inconvenient operation. I myself looked upon it very unfavourably, and if it had been formally proposed in February I think that I should not have accepted it; and even in private I expressed a decidedly contrary opinion. At that time the absolute necessity of this step was not apparent, and indeed, under ordinary circumstances, it is by no means correct for the Exchequer to pay the debts of others, for that is what the operation comes to.

Nevertheless it seems indispensable now to authorize the loan of £2,000,000.

As a rule of conduct, it is intolerable that the State should be continually mixed up with the operations of the banks; but in this case it appears unavoidable, and it is to be hoped that it may be for the last time.

To help the banks is really the object of the contemplated loan of £2,000,000, because for the real Conversion, for the payment of the Exchequer notes, it is known that there are already accumulated all the necessary funds."

These estimations, that were made on discussing the Bill, were confirmed by the Law itself when it was promulgated.

Article number 2 of that Law enacted: "The produce of this loan shall only be destined to the extraordinary extinc-



tion, by tender, of the Municipal debts that are at the charge of the State, according to the Law of Dec. 22nd 1891, and to the object expressed in the following art:

Art. 3rd.—“From the date of the initiation of the Conversion, up to December 31st 1897, the Exchequer will cash on demand bank notes that are totally guaranteed.”

The whole of the produce of the loan was employed in the amortization of Municipal debts, in the payment of the bank notes, and in loans to some of the banks to assist them in paying their deposits.

After the Metallic Conversion was carried out the Exchequer Report for 1896 declares as follows:

“With regard to the bank notes, the intention of the Law was to guarantee their payment, in gold, so that the return of the metallic regime might not be disturbed by that element which formed part of the currency. If the State had not taken over the exchange of the bank notes the Metallic Conversion would have been ruined.

What now consolidates and maintains this regimen is the certainty of being able to exchange the bank notes for gold in the respective Fiscal Offices; and the payment of the bank notes by the State must be established, and firmly maintained, if it is desired to secure completely the permanence of the metallic regimen.”

Here we have a categoric official declaration: Chilean banks cannot exist without the financial support of the State.

That is the absurd state of things that exists in Chile, owing to the deplorable legislation and the organization of the banks.

All this goes to prove clearly that it was not the Conversion, that it was not the payment of the Exchequer notes, that imposed extraordinary burdens on the State, but the help given to the weak and badly-organized banks.

Naturally, on carrying into effect an operation so delicate as the Metallic Conversion, we had to suffer some perturbations.

Besides, it must be admitted that there were errors of

detail in the carrying out of the Conversion. In connection with it some financial operations were delayed and rendered difficult by the times, such as the discounting of the Nitrate obligations and the Exchequer loan of £2,000,000 for the banks.

The Nitrate debtors on the one hand fell into arrears in the payment of their dividends.

Part of the notes redeemed was paid with drafts on London by reason of delay in the arrival of the gold that came from Europe.

Another part was paid in English sovereigns, which was also the cause of some inconvenience, because as that money was better known than the Chilean coinage, it was more appreciated by the public, and therefore was hoarded up and did not circulate freely.

All these were disturbing elements added to the weak situation of some of the banks.

The Exchequer Report says as follows: "As in other countries, during the development of this complicated operation, difficulties have arisen that we have tried to obviate by administrative measures; but the Government has not been able to enter into the field of the dissenting opinions in order to arrest the mistrust and doubt, nor to prevent speculation, notwithstanding the conviction of the serious consequences that must result from the reiterated manifestations of those opinions.

This situation being brought about and the confidence of the public weakened, the hoarding up of gold in considerable quantities soon followed, together with the forced rise in the rate of interest on money. The sum that, being suddenly withdrawn from commerce and deviated from its natural channels has occasioned this violent monetary contraction and the consequent fall in instruments of credit and other stock, is estimated at more than \$10,000,000.

Another of the serious obstructions was caused also by the weakness of the banks. The Exchequer Report corresponding to 1895 says: "At the commencement of the Con-

version, on June 1st 1895, many foreign capitalists flocked to the office of exchange, demanding gold in exchange for the notes they had in deposit in the banks.

The Government did not dispose at the moment of the necessary quantity of gold coin, partly because a great part of the bullion acquired had not been coined, and partly because the produce of the Nitrate obligations discounted in London, and of the loan of £2,000,000 negotiated at the very time when the Conversion was initiated, had not yet had time to arrive in the country.

In this state of affairs it was necessary to meet the exchange of notes with drafts on London; but as it was not possible to withdraw from circulation the notes that had been exchanged for drafts, that is to say without having replaced in the market the paper money for the other money, nor was it possible to withdraw suddenly from the bank so many millions of pesos, it became necessary to leave as a deposit in those establishments, to the account of the State, as many millions as the foreign and national capitalists demanded should be exchanged for gold, and which were exchanged for drafts on London.

This explains why, of the Loan of £2,000,000 authorized by the Law of May 1895, the sum of \$16,273,861 should have been deposited in the banks."

The writer of this book considered the close relationship between the Exchequer and the Banks so abnormal and dangerous, that in 1895 in the preamble of a Bill presented to the Senate and destined to procure the liquidation between these two entities, he said as follows:

"A very bad result has been given, in practice, by paragraph 9 of article No. 2 of the Law of Jan. 24th, 1883 that authorized the Director of the Treasury to: 'cause to be deposited, with the consent of the Chancellor of the Exchequer, in the bank or banks designated for that purpose, such funds that exist in the departments under his control, that have not a provided or immediate application.'

This stipulation, and the practices introduced, have re-

sulted in some of the banks exerting themselves more in getting possession of the funds of the Exchequer for use in their transactions, than in exacting from their own shareholders the capital necessary for carrying out the operations they may wish to undertake, and for giving to their establishment the full scope of their ambition. It is a curious thing. The shareholders wish to have banks great in name, and with numerous branches doing business in all the provinces, but they obstinately resist providing them with the capital necessary for securing them an independent existence! Thence proceed the demands that there should be deposited in their coffers the Exchequer funds that the State needs for other more lawful purposes. The several banks have already in their possessions a sum equivalent to the total produce of the last loan of £2,000,000; and to such an extreme has this state of affairs arrived, that some banks have recently declared dividends to their shareholders, paying them in reality with those fiscal funds.

Alleging as a reason the transfer of the funds for specified purposes that nevertheless have not been fulfilled, \$24,000,000 of the money of the Exchequer have been already delivered to the banks; and as the transaction seems to be to their advantage they have striven among themselves to utilize for their own benefit the greatest possible proportion of the State's money.

Some banks complain that they have not been able to obtain the money of the Exchequer with which to supply their coffers; and others complain that their neighbour has secured a greater share of those funds than corresponded to him. And what proportion *corresponds* to each of them? It seems as if they believed they had acquired the right of sharing among themselves the money of the Exchequer!

On the other hand, we are completely upsetting the natural order of things; instead of the citizens contributing to the maintenance of the State, we endeavour to become debtors to the State, in order to distribute the money among the citizens in the form of loans. And these loans of the

State's money, dissimulated through the medium of the *Caja de Crédito Hipotecario* (Land Bank), will be certainly taken advantage of by those who are on the spot, and are more wide awake; just as the greater part, \$24,000,000, has been obtained by those institutions whose managers have been in constant attendance at the office of the Chancellor of the Exchequer, to exercise pressure there."

This was set forth to the Senate in 1895. In spite of all the obstructions recounted, the Metallic Conversion was effected and the country supplied with a sufficient quantity of gold and silver money.

The monetary condition of the country during the three years that followed these events has been described by Don Roberto Espinoza (*Financial Questions*) in the following terms:

"During the period from June 1st 1895 to July 31st 1898, the country being provided with gold money of definite and stable value, with guaranteed bank notes and with a fiscal note of forced currency payable on demand in gold as though it were a bank note, the rate of exchange, as a result of the stability of the value of money, suffered only those oscillations that are common in all countries of the world and are owing to the action of the supply and demand of drafts.

During this period the money is not depreciated in the slightest, nor is the rate of exchange submitted to exaggerated fluctuations. The average loss during this period, caused by the rate of exchange, is equal to 0.544d., a sum that corresponds to the expenses and losses of the remittances of gold to London, or more exactly to the combined effect of the supply and demand of drafts. The average rate of exchange in this period of 37 months is 17.456d., the par value being 18d. As the partisans of the paper money pretend that the Metallic Conversion of 1895 produced a monetary restriction in the country, which is erroneous, we quote the following from the Exchequer Report of 1895: "The books of the Mint show that up to August 15th 1896 \$ 45,614,953 in metallic money had been put into circulation. This sum

includes the amount delivered in payment of notes, and that coined for private individuals or delivered to the banks or to the Fiscal Treasuries.

It appears also from the statistics of the Valparaíso Custom-House that coin was exported, up to that date, to the value of \$6,960,878. The quantity which has been exported in ways of which the Custom-House cannot take cognizance and that may be compensated by the coin imported by private individuals, is estimated approximately at 15% of this amount. So that deducting the coin exported, there would have remained in the country \$ 38,654,075 of 17½d. to fill the vacancy left by the \$ 42,251,159 in notes withdrawn from circulation, and that in December 1895 were worth 13½d. per peso."

Señor Espinoza says: "It follows then, that according to the data afforded by our Custom-House, the amount of gold and silver coin exported from 1895 till 1897 inclusive, is only a little more than 2½ million pesos; and if we take into consideration the gold coin imported during the same lapse of time, that amounted to the sum of \$ 572,475. we shall find that the final balance of the exportation of coin during those 3 years does not reach the sum of 2 million pesos. So that during the period of the metallic currency, begun on June 1st 1895 and ended July 31st 1898, the effective value of the coin in circulation has fluctuated between 53 and 66 million pesos of 18d., figures that are superior to the effective value of the circulation during the following years of forced currency, 1879, 1892, 1893, 1894, 1899, 1900, 1901, 1902 and 1903; but if we consider that the exportation of coin set down for the year 1898 is the amount verified up to December 31st, and if we take into account only the years 1895 to 1897, we must further add that the effective value of the money in circulation at that period was superior also to that of 1887."

Besides, we have seen in the first chapter of this book that the production of gold in this country is abundant.

With these antecedents it is easy to understand whether

the Metallic Conversion diminished or increased the quantity and the value, or power of exchange, of the currency.

The monetary operations of the country went on developing during three years without any serious obstructions. Under date of June 1st 1898 the Chancellor of the Exchequer, in his Annual Report, made the following declarations:

"As appears from the data given in the Report the situation of the Exchequer appears in favourable conditions, notwithstanding that, in order to show this result, the economies determined upon during the course of the year have been taken into account. The ordinary necessities, and even the extraordinary ones have been attended to, or will be satisfied with the resources that have been indicated *and yet leave a superavit.*

It is satisfactory to state this fact, the knowledge of which will contribute to strengthen the confidence in the actual solidity of the fiscal situation of the country.

On the other hand, on a comparison of the figures of the assets and liabilities of the nation the high grade of solvency remains evident."

These official declarations are clear, definite and explicit. All the financial difficulties had been overcome. The monetary system had been reformed, the Metallic Conversion had been successfully effected, there was abundance of gold and silver coin in the country and the fiscal situation was unembarrassed.

And in spite of all this, on July 11th, *only forty days afterwards*, we were already launched into a new conflict with a *ley de moratorias* (an emergency Act of legislation authorizing all debtors to suspend payments for a given period) and *two months later* (July 31st) the country was once more submerged in the disasters of paper money.

This calamity will form the subject of the following Chapter.

## Chapter Sixth.

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1898.

### Return to Paper Money

As the preceding chapter shows, the Metallic Conversion effected in 1895 met with some difficulties of execution, but was nevertheless carried to a successful issue.

As will also have been observed, that important reform was strenuously opposed by certain political and social circles of the country.

In the Report of the Exchequer corresponding to 1892, the learned Minister then at the head of that Department expressed himself in the following terms:

“The obstacles encountered by the Law of November do not arise from its particular dispositions, but from the very nature of its object. Any other law whatever for the abolition of forced currency and the restoration of payment in specie would have met with the same obstacles. Those obstructions are caused here, as in other countries, by the interests affected by the Conversion, and by the preoccupa-



tions, unfortunately very general, of those who do not distinguish in the prices of goods the number of units of the real value of the money.

The farmer who sells his wheat at \$5 *paper*, looks askance on a situation in which this price descends to \$2.50 *gold*.

However much the Conversion Law be retouched, it will continue to be a target for attacks more or less general and intense, so long as there is a want of confidence in its being carried out in the face of all the obstruction offered by the interests affected and by the economic preoccupations."

That operation was hardly commenced when the partisans of the paper money began to agitate for the restoration, by whatever means, of the forced currency.

This was soon perceived by the distinguished Chancellor of the Exchequer who at that time managed our finances, and in his Report for 1895 he made the following sensible observations:

"It is not conceivable that there be in the world any Government or Congress capable of the foolishness of issuing paper, when the State is not debtor but creditor for many millions of pesos, and when the ordinary revenue of the nation, that exceeds \$ 80,000,000, provides more than sufficient resources to supply satisfactorily all the wants of the public administration.

Why did the State want the paper money?

To lend it?

To whom?

To those who are actually owing the State more than \$ 21,000,000?

It would be a unique example in the economic history of the nations, that a State that is not debtor, but creditor, should issue paper money in order to lend more still to its debtors. This is so absurd that it is not worthy of discussion; nor is it possible to admit the supposition that Chile should appear to the world in the disgraceful economic act of issuing paper money for the sake of lending fictitious cap-

ital to its debtors, so that with eightpenny or tenpenny pesos they might pay the pesos received at a value of  $17\frac{1}{2}$ d. We have absolute confidence that such things will never be seen in Chile; and one is justified in thinking that there cannot exist any civilized country initiated into the notion of the respect due to the right of property, in which any Congress should dare to authorize such an audacious and immoral spoliation."

And nevertheless that was precisely what happened only two years after the preceding words were written!

The Government that ruled the destinies of Chile up to \* September 1896 was a resolute and convinced supporter of the monetary reform that it had undertaken, and in that financial policy was backed up by the Congress of that time.

In September 1896, the Government passed into the hands of the new President recently elected who, in the excitement of the electoral campaign, had promised some of his supporters to restore the forced currency of paper money.

Indeed, the first cabinet he organized was presided over by one of the most decided enemies of the metallic regimen, and the Chancellor of the Exchequer also manifested marked tendencies in favour of the paper money. But in the Congress there was still a majority with sound economic tendencies, and after some political conflicts they managed to overthrow President Errázuriz's first cabinet, and by this means succeeded in maintaining for the time being the regimen of the gold money established in 1895. The moment soon arrived however for the election of a new Congress, and with the efforts of the advocates of the paper money and the exertions and evident inclination of the President, the new Congress was returned with a considerable majority in favour of the restoration of the paper money of forced currency. By means of the personal and direct exertions of the Head of the State, the most decided partisans of the metallic regimen were kept out of Congress, one of them being the writer of this book, whose election was strenuously opposed by the then President of the Republic.

Things being in that state, that is to say there being tendencies in favour of the paper money and against the metallic regimen, in the new Government as well as in the new Congress, nothing was wanted but to take advantage of the first opportunity, or the first pretext, to put their plans into practice. The public took notice of this state of affairs and the distrust in the situation remained latent.

The conspiracy of the partisans of the paper money in favour of the forced currency triumphed, to a certain extent, by deceit; they alleged that a considerable part of the money in circulation had disappeared from the country; which we have already proved was not true.

They agitated, and exaggerated beyond measure the dangers of international conflicts, and announced imminent war with the Argentine Republic, which calamity fortunately never took place.

By this attitude and with the continual announcements of a new issue of paper money, the alarm and distrust naturally increased; and by various other means, with false information and other expedients, they succeeded in bringing about a panic that was transformed into a run on the banks, the majority of which were never in a very solid condition.

The advocates of paper money shut their eyes to everything so long as they might attain their object; they did not understand, or did not want to understand, that a solid financial situation is the sinews of war and that, admitting the possibility of an international conflict, the country would be weakened by the expulsion of the gold money and by the issue of paper of unstable value to replace it.

Naturally, and exactly according to the wishes of the promoters of those agitations, the banks were placed once more in an extremely precarious situation.

Señor Espinoza in his book, "*Financial Questions*," appreciates the then situation in the following manner:

"The reasons that bring about the forced currency in 1898 are the same that brought the paper money in 1878: the debility of the banks.

Nevertheless the bank issues of paper money were not the principal motives for the return to the forced currency, but the Bank Law of July 23rd 1860, that established no guarantees in favour of the bank note, and the careless administration of those institutions that never pre-occupied themselves seriously about the future of their notes, nor about the situation in which their issues might some day find themselves before the public and their own resources. The banks, from the year 1878, never should have forgotten that they were debtors, and that they must make preparations for the payment of their notes in specie when the law should thus dispose: but instead of that, they went on gaily without troubling themselves about the matter, trusting to the complacency of the legislator."

The principal banks finding themselves in difficulties, the partisans of the paper money continued to exaggerate reports on international dangers and on the bad situation of the banks, inciting the public to withdraw their deposits, until the *general moratorium* was decreed only forty days after the very favourable statements made in the Report of the Exchequer that we have quoted in the preceding chapter.

The **Law of Moratoria** promulgated July 11th 1898 was conceived in the following terms:

"*Sole clause:* For a period of thirty days, actions of execution, whether civil or commercial, may not be commenced nor carried on, including bankruptcies that proceed from obligations contracted before the promulgation of the present Law.

Obligations arising from taxes due to the Exchequer or to the Municipalities are excepted. With regard to the obligations that expire during the period of the *moratorium* the time will be reckoned from the date of their expiry."

Señor Espinoza well says: "This *Law of Moratoria*, like that of inconvertibility in 1878, came as a great surprise to the majority of the country, that awoke one morning to find a Law unsuspected by them, and the extent of which they could not imagine."

And he afterwards adds:

"In consequence of the permanent imprevision of the Banks; of the somewhat ready complacence of the Legislative Bodies and of the State, whenever the interest of those establishments has been at stake; of the nervousness of the public, stimulated by the malice of many friends of the forced currency, the banks were allowed to close their doors and refuse payment of their notes and of the deposits that the public had entrusted to their custody."

Thus the friends of the paper money had now provoked the conflict they sought, and the banks found themselves again, as usual, in serious difficulties; and as in the Government and Congress opinions favourable to the forced currency of paper predominated, the Law of July 31st 1898 was dictated, that authorized a fiscal issue of paper money, prohibited the banks from issuing more notes, and empowered the State to lend to the banks the whole of the fiscal issue of forced currency of \$50,000,000, at 2% per annum, etc.

The Law of July 31st was the key to the *Law of Moratoria*, the object of which the public could not at first divine.

Señor Espinoza adds, (*Financial Questions*):

"The fundamental objects of the Law of forced currency of July 31st 1898 have no relation whatever to any urgent need of money felt by the State.

The real motives of that Law are to be found in the Law itself; the Law shows that the State possesses abundant resources, to the extent of taking charge of the debt of the banks derived from their notes; even to the extreme of being able to lend to the banks, immediately, the sums represented by those same notes, and the others that it issues, at 2% interest.

The State, by this Law, assumes the responsibility of the bank issues, that amount to \$ 20,200,000 of 18d., and contracts the obligation of paying them to the public in two years time.

The banks, by the same Law, are obliged to pay to the State their issues, in three years' time; not in specie however but in currency; that is, in paper money.

So that the State is left owing to the public the amount of the issues of the banks at the rate of 18d. per peso, and the banks owe to the State those same issues, in paper money; availing themselves, indeed, for cancelling that debt, of the money lent them by the State at 2%, and that must remain, according to the Law, deposited in the same banks. It cannot be said of a State that, without any compulsion whatever, takes charge of the debts of others and voluntarily lends money, that it is in want of money. Besides, what does it mean, that for fear of war the State and the Congress should settle the banks' affairs for them?

Why, on the eve of a war and as if to avoid it, do the State and the Congress charge the debts of the banks to the account of the nation?

All this would have one of the two following explanations: Or the fear of war was diminishing and disappearing, so that peace seemed to be an accomplished fact. On this supposition the peace would have the effect of assuring the Conversion Law of February 11th 1895 so that the banks should continue to be united to it with all the obligations that it imposed on them.

Of course, as the banks were not prepared for that Law, neither before nor afterwards, they could not remain subject to it. In this emergency only two roads were open to the banks: either bankruptcy or the transference of their issue to the State; and the latter course was chosen.

On another hypothesis the banks would have found themselves disposed to impose the war on the State, as a condition of life or death.

Indeed, one of the immediate consequences of war would have been the forced currency; and the return to the forced currency was the salvation of the banks.

The State, on this hypothesis, would have found itself in this dilemma: either war and the forced currency; or the forced currency without the war, transferring the debt of the banks to the State; and the latter was the course adopted.

The *Law of Moratoria*, promulgated 20 days before the

Law of July 31st (not through fear of war with the Argentine Republic) was the prelude to the forced currency.

The *Law of Moratoria*, not demanded by the urgent need of any industrial circle, nor by any motive of a general nature, was dictated solely and exclusively in favour of the banking institutions, and to prevent their failure.

The *Law of Moratoria*, came to save the banks and the State from the most serious charge that history could bring against both institutions.

The forced currency, by the Law of July 31st 1898, was only imposed on the country in order to save the banks or rather to save one great Bank; but if that Bank was saved from liquidation, the country was submerged in a forced currency whose consequences to-day inflict misery and desolation on many homes and on millions of our fellow-countrymen."

The *Law of Moratoria* having been promulgated, and before July 31st, the writer of this book, seeing that the course was being followed of sacrificing the nation in order to protect one bank, then mismanaged, proposed in the following terms a system of liquidation and of reorganization of the said Bank, in order to avoid a greater disaster.

### **"The Bank of Chile: Its liquidation and immediate reorganization.**

In view of the present state of affairs, the immediate liquidation of the Bank of Chile is called for, taking advantage of the 30 days grace conceded by the Congress, to save the institution, proceeding in the meantime to its reorganization.

With an immediate liquidation on the basis of the actual monetary system, the shareholders would save the whole or the greater part of their capital, the creditors would be paid little by little, almost without loss, and the debtors of the Bank would be considered in a manner that would neither embarrass nor prejudice them.

It can be accepted as an undeniable fact that Chile possesses at the present moment more than sufficient metallic money for all legitimate exigencies.

There is plenty of gold in the possession of the public who have of their own will withdrawn it from some of the banks.

There is also an excess of silver money in the country. If the public do not wish to leave their money in the banks, and if also, for very good reasons, they do not want to receive notes *that might never be paid*, they are perfectly within their rights. The banks are useful and convenient intermediaries when there is mutual confidence; but the public are under no obligation to submit to the intervention of the banks in all their affairs.

It is absolutely untrue that large quantities of gold have been exported. The exportation of gold has been very limited and natural, as in every country where the citizens have the right to dispose of their own property as they wish.

On the other hand, there is a steady introduction of gold bullion into the Mint, from the mines and gold washings of the country. In England there are importations and exportations of gold daily, as anyone may see in the *Statist*, and nobody's attention is drawn to that circumstance.

It is very unreasonable to pretend that an abundance of gold coinage does not exist in the country because it is not in the coffers of the Bank of Chile. The same could have been incorrectly alleged when the Commercial Bank and the Santiago Bank failed. The coinage is in the hands of its owners, that is, the public; it is known that the coffers of the Bank of Chile are, in some of their offices, almost empty, and the temporary closure and the liquidation of the institution is therefore by no means a reason why the country should not continue to use the coined money that is not in the possession of the Bank.

The Bank of Chile ought to proceed to liquidation, precisely for the reason that it has not sufficient provision of



coined money, although it has securities and investments more than sufficient for proving its absolute solvency.

It is not just, nor in any way convenient, to hamper the industry and trade of the whole country, and to cause great confusion, in order to get out of a smaller difficulty that might be remedied in another way.

We repeat that the Bank of Chile is absolutely and completely solvent; it is true that coined money is wanting in its coffers; but it has securities more than sufficient to obtain it, little by little, allowing time. If the Bank of Chile were liquidated, it would pay all its engagements, with absolute security, prejudicing none of its creditors, and probably its whole capital of \$20,000,000 would remain intact, thus saving its shareholders.

The fairest solution at the actual moment, if the Bank of Chile does not obtain a European loan sufficient to settle the difficulty, the most equitable and convenient solution for everybody, is, we repeat, the immediate liquidation of the Bank.

If the Bank of Chile does not obtain the loan that it has solicited to help it out of its difficulties, it should proceed to liquidation by agreement of its shareholders, taking advantage of the time granted by the *Law of Moratoria*.

That liquidation will be by no means so unreasonable and disastrous as some may believe, and it would be for the country a much lesser evil than again upsetting its monetary system. Once the liquidation begun, without further disorder for the country, the method of reorganizing the Bank can in the meantime be studied; introducing fresh capital to initiate a more solid progress in the future.

This has been frequently done in other countries, giving time to study the situation thoroughly. Very little metallic coin remains in the Bank's coffers and therefore, on that point, the inconvenience caused to the public will be small. The liquidation convenient for the public, and above all for the shareholders of the Bank, might be carried out, as has been done in the English colonies of Australia, in the following manner.

The requisite measures are adopted for facilitating the liquidation of the Bank, having special consideration for its debtors.

The necessary arrangements are made for the Bank to issue special *deposit certificates*, that might be called bonds, of 100 and 1,000 pesos, payable to bearer, up to a sum equal to the amount of the deposits that the public may have lodged in the several offices of the Bank, in current account, at sight, and for a given time.

To put it more plainly: the certificates would be for an amount equivalent to the total of the Bank's obligations, leaving out the notes in circulation. Those deposit certificates, payable to bearer, would gain an interest of 1 cent daily for each 100 pesos, or a little more than  $3\frac{1}{2}\%$  per annum.

With these certificates the Bank would pay its liabilities and balances of current accounts, paying in coin sums inferior to \$ 100.

The Bank, in return, would receive from the public those same certificates at their nominal value in settlement of accounts, and thus the liquidation would be gradually effected. The public would make use of those same certificates for maintaining their deposits in the Bank, gaining a moderate interest while the liquidation was going on. They could also sell them, and transfer them to such debtors of the Bank as may need them for settling their accounts with it, and could also use them for raising funds on them whenever they find it convenient.

Thus the liquidation of the Bank is begun without great confusion, the total capital belonging to shareholders is preserved on its gold basis, and time is given to study conveniently the reorganization of the Bank.

As the liquidation proceeds, and whenever the Bank possesses surplus funds, a monthly drawing is made of a corresponding quantity of certificates, which are thereupon paid off altogether with the interests accruing.

Thus the creditors of the Bank are gradually reimbur-

sed, without much loss to themselves, and without great disorder to the country.

The Bank must cancel and destroy the deposit certificates that we propose, in proportion as they are recovered from the public, paying them off by lot or receiving them in exchange for its own credits.

The deposit certificates issued by the Bank would come to represent, and to mobilize in a convenient form for the public, the total mass of the Bank's investments; and will be guaranteed by those Securities of which it has more than sufficient for the purpose.

The total sum of the provisional certificates of deposit would amount to 50 or 60 million pesos, more or less, and the responsible capital amounts to \$ 20,000,000 more; and as the Bank's investments amount to from 70 to 80 million pesos, I should like to point out that the \$ 60,000,000 of provisional bonds would be represented by Securities and Credits in favour of the Bank of the approximate value of 90 or 100 millions of pesos.

As the gradual liquidation went on, naturally the first to be liquidated would be the most realizable part of the credits in favour of the Bank, sufficient to gather in and cancel the provisional certificates delivered to the public.

The heavier part of the Bank's investments, being recovered more slowly, would remain to the last, and would represent the shareholders' capital; and then, in order not to exert too much pressure on the debtors, the moment would perhaps arrive for transforming that into a temporary section of mortgages, of the reorganized Bank. The Reserve Fund that appears in the balance of the Bank might be applied to make releases and concessions to some debtors who find themselves somewhat embarrassed, with the object of alleviating their situation and smoothing their circumstances as far as should be reasonable.

But before proceeding so far with the liquidation, the way would doubtless be found of reorganizing the Bank on the basis of what exists.

It has its offices, its material, its personnel, and it is only a question of increasing the capital that will be left over, maintaining the actual monetary system of the country. In Australia various important banks found themselves in 1893 obliged to suspend operations; they proceeded to temporary liquidation, were reorganized and revived stronger and more vigorous than before. The Bank of Chile can do the same. In view of the situation that has been created, we think that our proposal is the most practicable, the least exposed to difficulties, and one which would save the country from enormous loss.

Valparaiso, July 11th 1898.

This proposal of the liquidation and reorganization of the Bank of Chile was received with irritation by those who were conspiring to inundate the country once more with paper money; it was naturally rejected, and the Law of July 31st that ordained the issue of a forced currency of paper money came into force.

Many had believed in an abundant and cheap circulating medium, but the notes issued were principally lent by the Exchequer to the banks at an interest of 2% per annum, with the exception of two that did not accept that aid. That loan to the banks at 2% interest has been one of the most absurd dispositions of the Laws that have been dictated on these matters.

Of the banks that received those notes at the interest of 2% per annum, some employed them for replenishing their coffers, others for paying off to the Exchequer itself former debts on which they were paying a heavier interest, others again profited by the occasion to make remittances to Europe at what appeared then a good rate of exchange, employing in those remittances the produce of the notes lent by the Exchequer.

A small proportion of the notes was delivered to the use of the public by the banks favoured by the Exchequer.

The abundant exportation of products, and also of money driven out by the forced currency, provided means for drawing on Europe; but many exporters, instead of drawing, invested their money in Europe; which signified a flight of capital.

Then it was pretended that the forced currency was again imposed upon the country by the necessities of the National Defence; but it is notorious that the greater part of the paper money issued was lent to the banks in difficulties, that not only lent no assistance whatever to the nation in those circumstances, but were a cause of weakness, seeing that to maintain themselves they absorbed resources of the Exchequer that ought to have been applied to national purposes.

The Public Authorities acted then with such precipitation that they did not see, or did not want to see, that solid finances are the sinews of war, and that a good supply of metallic money in the country is the basis of the fiduciary money.

Nothing was thought of but issuing paper money, upholding the banks at any cost, and no measures were taken for retaining the metallic money in the country.

As a consequence of the issue of notes of forced currency, the gold disappeared from circulation and was exported. There came to pass exactly what the writer of this had prophesied in March 1896, 2½ years before, in the following words.\*

“We shall conclude by declaring once more, without hesitation, that no human power can drive out the gold money from Chile, except the monetary law be modified unfavourably; and except, above all, that paper money of forced currency should again be issued. Then indeed the gold will disappear in a very short time.”

This was fulfilled word for word in 1898!

We invite the reader to go back a little in the perusal of this book and read again (page 28) the version that Señor Courcelle Seneuil has left us of the commercial crisis of 1861.

There he will see that it was an intense crisis that went on developing little by little, and was caused by imprudent speculations, by the mismanagement of private enterprises, and by considerable losses of capital. He will see also that the situation was liquidated and regulated by the free play of private interests. Individuals who needed to liquidate liquidated, without *moratoria*, without paper money, without the intervention of the legislative power, and without prejudicing the country more than could be helped. In 1861 also, a great part of the gold money disappeared from circulation; but as no one attempted to issue paper money, confidence was soon restored and the gold reappeared spontaneously. The country soon resumed its march of progress, and the only ones that suffered the consequences of the crisis were those individuals immediately responsible for it.

That of 1898 was not indeed a commercial crisis like that of 1861, but rather an almost sudden panic, prepared to a great extent artificially with a determined object and with the complicity of the Executive and, to a great extent, of the *Legislature*. It was the triumph of the conspiracy of the friends of the paper money to inundate the country again with a forced currency.

It was a case of "*everyone for himself*." The gold was withdrawn violently from the banks, and everyone put it away in his cash box, his portmanteau, or his pocket, in fear of the spectre of the so-much-announced paper money; and as that spectre became reality, the gold disappeared definitely from circulation, and will only return when the forced currency comes to an end, let the balance of that other phantasm of the now famous "Balance of Trade" be what it may.

In 1898 paper money was issued to protect the badly managed banks, to alleviate private individuals that had made a bad investment of their money, or that had exceeded themselves in their undertakings; whereas with the depreciation of the money loss was inflicted on the immense majority: on all employees who earned a fixed salary, on all capitalists, on all contractors, on all those who had managed

in any shape or form to accumulate a few savings, in short, on the innocent; while the guilty reaped the benefit.

On several occasions since 1898, attempts have been made to deliver the country once more from this situation; but the obstinate advocates of paper money, sometimes in the Government and always in the Congress, have opposed a tenacious resistance. From that time innumerable discussions and divers contingencies have succeeded up to 1907, when the Exchequer notes, after successive additions, reached the sum of \$120,000,000.

The Conversion Fund in gold amounted to \$80,000,000.

A considerable part of the notes had been employed in the purchase of bonds issued by the Caja Hipotecaria (Land Bank). That is to say, one paper was created for the purchase of another paper.

The Exchequer notes of forced currency issued in 1898 amounted to \$50,000,000; but as the amount of gold and silver money that in those circumstances existed in the country was superior to that figure, it followed that a somewhat inferior quantity of fiduciary money came in to replace the metallic money, and for that reason it was not at first very much depreciated; the exchange at the beginning kept at about 17d. while the intrinsic value of the gold peso was 18d.

Then was realized, approximately, in Chile, one of the maxims of Adam Smith when he said: "The total mass of paper money that can circulate in a country without great inconvenience must never exceed the value of the gold and silver money that it replaces and that would circulate, if the paper money did not exist, supposing trade to remain unchanged."

But the Chilean Congress-men were not content with that situation; they wished to have *an abundant and cheap currency* and so the quantity in circulation was considerably augmented, and, as a logical consequence, began to be depreciated, and this depreciation continued in proportion as the fiscal issues increased, with disastrous results; the paper

money has destroyed and driven more capital from Chile, than the earthquake of 1906 and the famous "Revival of Trade" combined.

Señor Espinoza says as follows:

80 "This aspect of the situation was originated in the year 1878. From that time the paper money has continued to fall steadily, with the exception of temporary reactions that have not restrained that depreciation.

This depreciation has been going on now for thirty years, with the exception of the period 1895-1898 during which there existed a money created under the protection of that same depreciation of the paper money. They have been thirty years of constant expectation for the country; thirty years during which the country has not failed to observe for one single day, with lively interest and with anxiety, the rate of international exchange which is the indicator of the depreciation of the paper money; thirty years during which the country has listened to a thousand absurdities for explaining the cause of the fall in that rate of exchange; thirty years during which a thousand explanations have been given to the country in order to dissimulate the deplorable regimen; thirty years in which there has never been any desire to reveal to the country the precise causes of the coming of the forced currency in 1878... and why, indeed, a return was made to the forced currency in 1898, when nothing demanded the imposition on the country of a money that came to alter the basis of all contracts."

All this "has been a great obstacle to the economic expansion of the Republic.

With a paper peso, constantly decreasing values have been acquired during the last thirty years. In the year 1878 the paper peso had a purchasing power of 39½d.; in 1888 the purchasing power of that peso was equal to 26¼d.; in 1898 the value of 16½d. could be acquired with that same note of forced currency, and in 1908 we have arrived at the point of obtaining for it only the value of 8d."

The evils of the forced currency in Chile have been



aggravated by the fiduciary money being issued in the form of Exchequer notes, instead of by a great National Bank as in France, England, Germany, etc., or by a group of well-organized banks similar to those of Canada. It is notorious that the notes of forced currency in France were issued by the Bank of France, and in England by the Bank of England. The issue of notes by those two great establishments was guaranteed by the metallic money deposited in their respective coffers, and also a considerable portion of those notes was lent out on good security of relatively easy recovery, or in discounting short time drafts bearing trustworthy signatures, whose recovery would reduce the Bank issue on receiving again the notes in payment. The loans to the State in notes by the aforesaid Banks were also reimbursable, and those establishments were exigent in recovery, in order to place themselves in a position of reestablishing their credit. In short, those institutions possessed elements, resources, and the will to carry out the conversion of their notes into metallic money.

The system of the plurality of banks adopted in Canada, and that we have recommended as the most appropriate for Chile, permits the issue of well-guaranteed notes; but the commercial competition that exists among the different institutions, induces the ones to withdraw from circulation the notes issued by the others, and thus among 30 or 40 banking institutions independent of each other, mutual control is maintained in the matter of issue; the superabundant notes are withdrawn from circulation, leaving only the quantity that the country absorbs and reasonably needs.

In no country, nor in any circumstances, can it be said that there exists a determined figure with regard to the quantity of notes that may be safely issued; everything depends on the situation.

But it is evident that the principles established by the Bullion Report presented to the British Parliament in 1810, are those that ought to govern the fiduciary circulation issued by one or more banks. The sole barometer, the infallible criterion, is the foreign exchange, quoted in notes.

If the foreign exchange tends to go beyond gold-point on account of a part of the commerce having speculated heavily or having undertaken exaggerated enterprises, the public flock to the banks to convert the notes into metallic money with the object of exporting the gold. That is an infallible sign that there are too many notes in circulation, and that they should be reduced in quantity, or that the interest on money should rise in order to reduce the demand for capital. In that form, and proceeding thus, the bank is able to preserve equilibrium; a proportionate exchange of notes for metallic money is kept up and the depreciation of the note is prevented. These are the advantages of bank issues compared with the direct issues of Exchequer notes when countries see themselves in the necessity or advisability of establishing a fiduciary currency.

The issue of notes of forced currency apart from the banks, and effected directly by the fiscal offices, is of another character, and is much more dangerous.

It is under no control. The money is spent in such a way that frequently it cannot be recuperated. There is no power that can restrain a Congress in the quantity of paper it issues. Besides this the fiscal organization is not, nor can be, in contact with the commerce and industry of the country, nor with the financial movement.

The legislators, as a general rule, are much less competent in those matters than the directors of the well-organized banks; and as the amount of notes they put into circulation depends on their caprice, their ignorance, or their private interests, there is in reality nothing to keep them within bounds.

It might even be insinuated that Laws have been dictated with the deliberate intention of depreciating the fiduciary currency. They increased the quantity of notes indefinitely without being restrained by the evident depreciation of such notes, and although there exists a Conversion Fund in gold, that fund is practically sequestered, and fictitious reasons or pretexts are never wanted, either for augmenting

the fiscal issue, or for excusing its payment. Also the public conscience in Chile is very unsettled.

Señor Espinoza says: "When European economists shall be better acquainted with the economic history of the countries of America, and when Chilean economists shall have a greater knowledge of the history and economic legislation of our country, their tenets will be changed. They will all see that the Laws of forced currency in these countries have been the work of profound errors, or of inexcusable complacency, or of interested complicity... and that between all this, and the supposed derangements and the real or imagined exportation of specie, there is no relation whatever.

Our Congresses and Governors continue talking to the country of things unintelligible, to explain the cause of the retrogression to the forced currency; and of incoherent and absurd theories to explain the cause of the fall in the rate of international exchange...

For many years past both Congress and Government have seemed disinclined to pay; such at any rate is to be understood by their Laws with their successive postponements, by their prolonged silences, by their indolence and constant want of foresight.

It is true that they have frequently given explanations and many reasons for non-payment; but those reasons have been merely pretexts of debtors little disposed to cancel the debt.

Among the constant reasons given for eluding payment is the **Balance of Trade**, that is a kind of *fetish* in a way, and that serves admirably to alarm the public; but in reality the fundamental reason has been always hushed up."

How do the Chilean partisans of paper money understand or pretend to understand the Balance of Trade?

Let us hear the words of Señor Espinoza who explains the absurd theories that exist in Chile: "It is necessary to increase the production, it is essential to diminish the consumption, it is indispensable to have recourse to the patriot-

ism of all the Chileans that they consume less and produce more; that the products of the earth be multiplied a hundredfold, that the mines yield their precious treasures, that the plants grow and develop prodigiously, that the animals propagate incessantly, that the Chileans multiply their inexhaustible energies... in this manner the land, the waters, the air and the sky will cause a rush of products to the export ports... and the exchange will improve.

So that the authors of this theory and its applications believe that the *debt of the State contracted in each note of forced currency* is discounted in commerce because the inhabitants of this country are poor, or because they are not rich enough and because they do not work much harder.

They believe that if, for example, the production is multiplied by ten, and the consumption remain unchanged, or better still be diminished, those obligations of forced acceptance contracted by the State in its paper money would stand at par or at a premium.

I do not know if those people understand themselves when they speak or write in this way. All that I can affirm is that I do not understand a single word of what they say. I cannot indeed understand the relationship that is said to exist between the greater industrial production of this country and the quotation of that instrument of credit that the State compels us to receive, and which they call paper money.

I cannot understand how, if those who are already rich should be more opulent and the rest not so poor as they are, that paper money should be worth more than it actually is; I cannot conceive by what means, supposing every inhabitant of this Republic to spend less, that instrument of credit owed by the State could reach a higher place in the market; I do not see, I cannot see, what relation is perceived between the quotation of that debt without a fixed time for payment, and without interests, and the prosperity of each Chilean."

But as the famous theory of the Balance of Trade is the war horse of the advocates of paper money in Chile, it deserves a chapter apart, which we shall place at the end of this book, on finishing our relation.

## Chapter Seventh.

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Proceedings of the partisans of the paper money from 1898  
and summary of the situation in 1909.

— I —

The only good stipulation contained in the Law of 1898 that engulfed us once more in the forced currency, was that of ordaining the creation of a Conversion Fund in gold, destined, it was said, to the payment of the notes. That Fund has been formed with the money returned by the banks, proceeding from the Exchequer loans, and with a proportion of the revenue of the State collected by the Custom-Houses. The formation of this Fund has not been always consistent; sometimes it has been suspended and even a part of the gold accumulated has been sold and its produce invested in securities payable in paper money.

This Fund consists actually of more or less \$ 90,000,000 gold at 18d., deposited in European Banks, and \$ 34,000,000 paper in securities deposited in Chile.

As may be seen, the proportion of the Conversion Fund

with regard to the total of the notes of forced currency in circulation amounting to \$ 150,000,000, is considerable, and could contribute efficaciously to the salvation of the monetary system of the country if there existed the will to do so.

But numerous and repeated have been the attacks made on that Fund by the partisans of the paper money, with the object of procuring its disappearance. The advocates of the forced currency affirm that the accumulation of that money is a useless sacrifice, that it is a foolish fund and that it is contrary to what it is intended to effect. They do not take into any consideration whatever the examples of other nations; and they ignore the fact that only by the seriousness of their actions and the large amount of gold in reserve in the Banks of England and France, the Treasury of the United States and other establishments of importance, are maintained in other countries the value of the notes and the stability of the exchange. They allege that we use *imported* arguments that have no application in Chile!

The salvation of the existence of the Conversion Fund in Chile up to the present has been owing to its efficacious defence by the President of the Republic, and also because a certain proportion of the public have looked upon it rather as a War Fund destined to international policy. But when the actual President, Señor Montt, terminates his period of Government, and if the dangers of international conflicts completely disappear, it is certain that the friends of the paper money will do their utmost to bring about the disappearance of the Conversion Fund in some form or other, the notes of forced currency nevertheless remaining unpaid and in circulation, and naturally more depreciated than ever.

## — II —

Dominated by their extravagant ideas on the **Balance of Trade**, our legislators dictated the Law of August 27th 1907.

Let us remember that the Exchequer issue of forced cur-

rency to cover the cost of the war of 1879 and 1880 amounted to only \$ 28,000,000, which were redeemed and paid in 1895.

In 1898, as we have already shown, \$50,000,000 in fiscal notes of forced currency were issued, thus overthrowing the metallic regimen established in 1895.

The law of 1907 however found the issue of fiscal notes at the figure of \$120,000,000; upon divers pretexts it had been successively increased.

In August 1907, instead of fulfilling the promises stipulated in former laws, our legislators again failed to carry them into effect and increased once more the issue of forced currency.

Article 14 of the Law of 1907 established textually the following:

"The President of the Republic will issue, within 30 days, \$ 30,000,000 dollars of legal currency.

This issue will be invested in the acquisition, by public tender, of bonds of the Caja de Crédito Hipotecario (Land Bank) at a price not above par, at the rate of \$ 6,000,000 the 1st month, and of \$ 3,000,000 each month following."

This new issue brought up the total to \$ 150,000,000.

It follows from the Law itself that the new issue was not caused by any necessity of the Exchequer, for the whole of the \$ 30,000,000 was devoted to a very curious investment: the purchase of bonds of the Caja Hipotecaria (Land Bank), that is to say, one kind of paper was issued with which to purchase another.

It should be noticed in passing that it is generally the owners of agricultural property who mortgage their estates; they obtain by means of those operations bonds of the Caja Hipotecaria, and they have a keen interest in selling them at the best price possible.

Besides it is the same Circle that has the upper hand in the Congress and dictates laws. At the same time that the above mentioned Law provided for the issue of \$ 30,000,000 in notes of forced currency for the purchase of bonds of the Land Bank, it ordained the suppression, so long as the rate

of exchange should keep below 17d., of the monthly accumulation of \$ 500,000 in gold for the Conversion Fund that had been decreed by previous laws.

That is to say, the issue of notes was increased and the accumulation of funds for their payment was suppressed. The pretext given was that the accumulation of gold bore down the exchange.

The new issue of inconvertible notes of forced currency made the value of the paper money fall lower still, and nevertheless the same Law established that the said paper must rise above 17d. to enable the formation of the Conversion Fund to be continued!

The monthly accumulation of funds in gold for the completion of the Conversion Fund was suppressed and replaced by a *nominal* authorization to contract a loan, according to Article 15 of the same Law, which says as follows:

“The President of the Republic is authorized, up to January 1st 1910, to contract a foreign loan up to the value of £4,500,000 at a maximum interest of 5% per annum and an annual accumulative amortization of up to 1%.

The produce of this loan will be destined exclusively to guaranteeing the paper money issued by the State.

— III —

Nevertheless all this was not sincere on the part of the legislators. They suppressed in fact the monthly accumulation of gold for the formation of the Conversion Fund, and in its place authorized only *nominally* the negotiation of a loan.

We say *nominally* because they had the evident intention, that was afterwards proved, of impeding the negotiation of the loan, and even of derogating the authority to negotiate it.

This derogation was approved by the Senate only ten months after the authorization of the loan.

It is important to insert here the Bill brought in for that purpose, in the form in which it was passed by a great



majority of the Senate on July 21st 1908; it is as follows: "Article... The President of the Republic is authorized to carry out the Conversion of the fiscal paper in the half-year following that in which the average rate of international exchange shall not have been less than 17½d.

Article 1 of Law 1721 of December 29th 1904, and Article 15 of Law 1992 of August 27th 1907, are annulled.

Article... The President of the Republic will invest, from the month following the promulgation of this Law, the sum of \$ 20,000,000 in gold, of the Conversion Fund deposited abroad, in 5% bonds of the Caja de Crédito Hipotecario or of the Caja de Crédito Salitrero (Nitrate Properties Mortgage Bank), to be purchased by public tender with drafts on London at 90 days at a price not above par, and in monthly instalments of \$ 2,000,000.

The interest and amortization of these bonds will be invested in the acquisition, also by public tender, in gold, of more bonds of either of the two above-mentioned institutions; and these new acquisitions, as well as the bonds purchased according to the preceding paragraph, will remain as a part of the Conversion Fund.

*In the National Budget will be fixed annually the amounts that from the same funds, and in the same form, it may be judged in the future convenient to invest.*

As is seen, the authorization of the payment of the Exchange notes is made to depend upon a condition absolutely impossible to fulfil.

Whereas the **gold-point** of the gold money is 17½d. per peso (the par value is 18d.), the Chilean Senate pretends that the inconvertible fiscal note issued in exaggerated proportions and which its debtor persists in not paying, may be equal in value to the gold money, that is to say 17½d.!

Besides, by the same Bill passed by the Senate, the time previously established for the payment of the notes is suppressed, as well as the authorization to negotiate the loan destined to provide funds for that object.

In another Article, \$ 20,000,000 of the money already accumulated for the formation of the Conversion Fund is withdrawn and destined to the purchase of nitrate bonds for which there is no market in the country and which no capitalist wishes to buy.

As the said nitrate bonds have no acceptance with the public, it is evident that should the necessity arise for their realization, the State would not find a purchaser; and therefore it is a foregone conclusion that by that means it would be impossible to form anew the Conversion Fund in gold.

We had rather not express an opinion on the end pursued by the disposition that a part of the \$ 20,000,000 should be invested in gold Bonds of the Caja Hipotecaria when it is notorious that that institution has not issued more than £9,000 of those bonds in all...!

The investment in Nitrate Bonds referred to had evidently no other object than to break up and render useless the Conversion Fund. At the same time the date for the payment of the notes was suppressed and also the authorization to negotiate the loan for providing funds.

In 1907 it was pretended by the Law passed that the note of forced currency should be worth 11d. In 1908 the date for the payment of the notes was suppressed as well as the loan destined to provide funds, and the Conversion Fund formed for the payment of the notes was broken up; and nevertheless it was pretended that the said notes should rise in value, and that they should be worth 17½d., before authorizing payment of them!

If this was not a mockery we do not know what to call it.

Señor Espinoza (*Financial Questions*) makes the following observations: "By the Law of August 27th 1907, by the Bill presented to the Senate in June 1908 to postpone indefinitely the Metallic Conversion of the paper money, by the attempts and manoeuvres planned in one of the Houses of Parliament to annul the action of the President of the Republic in the matter of the Conversion of the paper money,

a state of things is created that from a student's point of view is extremely interesting, but whose profoundly disturbing influence is felt over the whole of the national economy."

With all this, as was natural, the paper money was depreciated still more. The exchange, reckoned in inconvertible notes, was quoted at 10d., that is to say, that an Exchequer note of the nominal value of 18d. was then estimated by the public at not more than 10d.

The Bill passed by the Senate did not become law, for the Chamber of Deputies transformed it into what was afterwards the Law of August 30th 1909.

It manifests however the marked tendency of one of the legislative bodies and made a disastrous impression on the public.

#### IV.

Let us sum up the situation.

On account of the war with Peru and Bolivia, up to \$ 28,000,000 in fiscal notes of forced currency were issued in Chile between 1879 and 1884. After much discussion the Conversion was effected, and those notes were cashed, from June 1st 1895, in gold pesos of the value of 18d. The Exchequer issue of notes was almost totally withdrawn

We were three years beneath the gold regimen, which was overthrown by the Law of July 31st 1898 that ordained a new issue of fiscal notes of forced currency to the amount of \$50,000,000, in order to lend them at 2% per annum to the banks which were, as usual, short of funds, and to purchase bonds of the Caja Hipotecaria (Land Bank.)

By a Law in 1904 the issue of forced currency was increased by \$ 30,000,000 of which sum \$ 20,000,000 were invested in bonds of the Land Bank.

The Law of 1906 ordained the issue of \$10,000,000 more in fiscal notes of forced currency which brought the total issue to \$120,000,000.

It was decreed in that Law that a part of the \$ 40,000,000 should be invested in public works, and the rest in loans to the banks or to private individuals.

In 1907 a Law was passed for the issue of \$ 30,000,000 more, bringing the total issue up to \$150,000,000.

The whole of the \$30,000,000 had to be invested in different classes of Stock or bonds of the Land Bank.

Each of these Laws annulled the promise of the preceding ones of converting into gold the Exchequer notes issued, and instead of redeeming them increased their quantity, not to defray indispensable expenses of the nation but to lend them, according to custom, to the banks in difficulties, or to purchase bonds of the Land Bank, that the State did not require but the sale of which was very advantageous to the agricultural proprietors because it enabled them to raise loans on the mortgage of their farms or other property.

All these Laws were at bottom misleading act of the State, because in every one of them previous promises were broken, and this from pure want of judgment and without any necessity whatever, for the country has been during the whole time in easy and solvent circumstances.

Attention is drawn to the marked insistence of the legislative bodies of Chile in issuing paper of forced currency and in selling part of the gold that formed the Conversion Fund in order to purchase mortgage bonds.

The Law of February 11th 1907 establishes the following curious stipulation:

"The Office of Issue will deliver Exchequer notes of legal currency, in the proportion of \$1 for each 18d., in exchange for the deposits, that may be made in that Office, of gold coin in conformity with Articles 10 and 20 of Law 277 of February 11th 1895, or in exchange for certificates accrediting that the gold has been deposited in London to the order and satisfaction of the Chilean Government.

Those deposits will not gain interest. They can only be withdrawn after 30 days notice, and will be destined exclusively to the payment of notes in conformity with Article 3."

By this Article the legislator imagines the public to be such dolts that they would hand over to the Exchequer gold money of the value of 18d. in exchange for notes that are now worth less than 11d. and with marked tendencies towards a greater depreciation!

Of course this stipulation has remained a dead letter.

It is incredible how such absurd Laws can be dictated.

Before the Law of 1898 that ordained a new issue of paper money of forced currency, the Chilean *peso* was worth more than 17½d.; today (July 1910) it is worth less than 11d.

In our relation we come now to treat of the Law of August 30th 1909, that was objected to by the President of the Republic, but that, as the opinion of the Congress prevailed, was promulgated and ordered to be carried into effect without the approbation of the President.

The details of that Law and the observations of the President will be discussed in the following chapter.

## Chapter Eighth.

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### The Law of 1909 and the veto of the President of the Republic.

We have seen that by the Law of December 29th 1904 the public authorities of Chile promised once more to effect the Metallic Conversion on January 1st 1910; but far from fulfilling that promise they really only concerned themselves with issuing more notes of forced currency.

By the Law of May 26th 1906 they issued \$40,000,000 and by that of August 27th 1907 \$ 30,000,000 more.

A change of the monetary regimen in any country is a serious matter and naturally it is necessary to prepare the elements indispensable for the success of such an operation.

Deliberately, in Chile, they did not want to prepare those elements, nor to adopt the necessary measures to enable that operation to be carried out and to make it practicable.

Between December 29th 1904 and January 1st 1910, there were 5 years, time enough for preparing everything if there had existed the will to do so. The date appointed drew near, and as the necessary measures had not been taken, it was evident that the Metallic Conversion could not be effected at the stipulated time. From the date of the promulgation of the new Law in August 1909, until Jan. 1st 1910, there were only four months available, a period in every way insufficient for an operation of such importance. There would not have been sufficient time for negotiating the loan authorized by the Law of 1907, and much less for bringing the gold to Chile and coining the money opportunely.

Nor had anything whatever been done to modify or reform the defective banking system that prevailed, when it is plain that without a radical reform of the Banks of Credit it is useless to pretend that a good monetary regimen can exist in Chile.

Again, the public authorities showed clearly that they were firmly resolved not to fulfil what had been promised; and this affirmation is sufficiently proved by the Bill passed by a great majority of the Senate on July 21st 1908 and that we have reproduced in the preceding chapter.

That Bill remained for some months in suspense in the Chamber of Deputies, but when Parliament was reopened on June 1st 1909 great efforts were made to secure its approval.

It was not approved in the form in which it had passed the Senate but it underwent substantial modifications, although it remained in such a condition that it was opposed and vetoed by the President of the Republic; but the opinion of the Congress prevailed and the Bill became Law.

Article 1 of this Law is as follows:

“The date fixed by the Law of December 29th 1904 for the Conversion of the paper money of forced currency is postponed until January 1st 1915; but if previous to that date the average rate of international exchange should have been during 6 months at 17d., the President of the Republic

will order the Conversion to be carried into effect within the 6 months following.

The other dates consulted in the said Law of December 29th 1904 are equally postponed for a period of 5 years."

This article was opposed by the President of the Republic who said in his message:

"Long-standing and deeply-rooted convictions do not allow me to approve the postponement of the Metallic Conversion fixed for January 1st 1910: and in obedience to the Constitutional Precepts stated it is my duty to make the corresponding observations.

For those reasons, although the President of the Republic has taken into due consideration the great majority of opinion that favours the Bill, he directs to the Congress the observations that, in the performance of his constitutional duties, he has the honour to present to it.

The President of the Republic has held, and holds, that the Conversion can be verified on January 1st 1910; because all the factors that compose the general economy of the nation are favourable to an operation of that nature."

We cannot agree entirely with these observations of His Excellency because we consider in reality, as we have said, that it was already too late to prepare the necessary elements.

What the Presidential observations indicate is, that our Chief Magistrate has meant to show that he was consistent in his ideas of economics, known to everybody, that undoubtedly contributed to his elevation to power: to excuse in a manner his historic responsibility in the indefinite prolongation of the deplorable regimen of paper money.

Although we differ from the President on these points there are others on which we quite agree with him.

The stipulation of Article number 1 for effecting the Conversion if the average rate of exchange should keep at 17d. during 6 months is absurd, or rather a mockery. With regard to this, Señor Espinoza (*Financial Questions*) observes:

"That the debtor pretends to redeem the paper money



when a condition has been realized that is not only uncertain but that also depends to a great extent on their own will (Congress and State), is to manifest, either that there is no intention of redeeming the paper money, or that the causes of the movement of the rate of international exchange are not understood.

The Chilean lawgivers do not know, or do not want to know, what the exchange really is. From the middle of 1895 until the middle of 1898 exchange remained almost steady around 17½d., because the regimen of gold money had been established. After 1898 the real exchange has kept in the neighbourhood of 18d. when it is a question of gold money. The exchange quoted on inconvertible paper of forced currency has fallen so low as 8d.; the latter is not the exchange however, but merely the estimation of the price that the public puts on a paper, on a promise to pay that the debtor does not wish to redeem."

The President in his Message is quite right when he says:

"Gold possesses among us at present a value of 3d. more than that of the drafts which are bought with it, and nobody would find it advantageous to export it, paying freight and commission for selling it abroad at 18d., when in Chile it has a purchasing power of 18¾d."

This naturally takes place now in the very limited proportion, and for special operations, in which gold is circulated in a country dominated by paper money. But the same rule prevails in every case, as is well known; (gold money at the present time has no application in Chile other than for the payment of a certain part of the Customs duties according to the law).

On the other hand, the note of forced currency is valued to-day at not more than 10½d. It has been depreciated to this point by the very authors of the Law that we are criticizing, by the continual and excessive issues of the said notes, by failing to fulfil their promises, by menacing the Conversion Fund, etc.

Those who, in derision, offered to effect the Conversion when the exchange reaches 17d., are resolved not to let it touch that figure: the low value of the paper benefits them because with their agricultural products sold at a high price in depreciated notes they are able to pay a considerable portion of their debts.

This was said very plainly by one of their representatives in the Chamber of Deputies in the session of August 26th 1909, in the following words:

“But in what circumstance was that loan of £2,500,000 raised?

At the very moment when our farmers were reaping their corn and needed to sell it to the exporters of the article.

What was most advantageous to our agriculturists? To receive for each sack of wheat the greatest possible quantity of notes.

What was most convenient for the exporters? That the price of wheat should be as low as possible in order to give for it a less quantity of notes.

In what way was the Government called upon to intervene? To put on to the market at that precise moment when our farmers were selling their corn to pay their balances, the £2,500,000 of the loan with which the exchange was made to rise, to the benefit of the exporters.

This operation was unfortunate, because it did not consult the interests of the national producers; for that reason I do not hesitate to say that this is one of the most lamentable and most injudicious acts of the actual administration.”

And in the session of December 28th he added:

“I was going to say, Honourable President, that the former loan, contracted at an inopportune moment, caused a loss to the agricultural industry of no less than \$ 30,000,000. Hence my fears that we do not know how much this one will cost.

At this rate the artificial rise in exchange will arrive at

extremes that will prejudice enormously the interests of all, and all the enterprises in progress.”

In the session of November 3rd another Deputy added :

“It is true that that undertaking cannot be carried out with the ordinary Revenue, but there is no urgent need of contracting the loan because there remain yet funds from the loan previously negotiated for that purpose; and on the other hand this would be a very inconvenient time for carrying out that operation, because this is the precise moment in which the farmers are selling their crops, and with the loan and the extraordinary sale of drafts a transitory rise in the exchange would be produced that would benefit nobody, and that would cause considerable damage to the farming industry.”

The Senator for Curicó was not to be left behind in this attitude, and in the session of January 12th 1909, he expressed himself in the following terms:

“I shall make no observations with regard to the form in which the loan has been contracted; but I have some remarks to make which I consider well founded, with regard to the moment, in my opinion badly chosen for the carrying out of this operation.

The moment in which it has been verified causes great damage to the country, which it was the duty of the Government to avoid, as it could have done, without injuring in any way whatever the interests of the Exchequer, nor interfering with the payment for the public works authorized by the Laws to which the Honourable Minister refers.

It is known that every year the firms that export our cereals try by every means within their power to make the exchange rise, with the object, natural enough for them, but very pernicious for the country, of buying our wheat and barley at the lowest price possible.

This union of the export houses being an evident fact and a matter of common knowledge, what ought the Government to do? It ought to combat that design because it injures the country and causes a loss to the agriculturalists

of many millions of pesos. This situation being known, and the Government having neglected up to the present the negotiation of the loan, it has now decided to contract it at the least opportune moment, when it can cause the greatest amount of damage, at the time of harvest, bringing about immediately a fall of at least 3 pesos for each fanega\* of wheat."

As is seen, those gentlemen try to prevent the execution of financial operations by the State except at such times when it is convenient to their circle. And why should not the Nitrate dealers also demand that similar operations should not be effected when they declare that such would be prejudicial to them? And the other industrial and financial circles of the country; would they not have an equal right?

No Chancellor of the Exchequer would be capable of managing rationally the finances of the State if before acting, he had to be considering private interests in conflict one with another. It is known that recently the Chancellor of the Exchequer considerably prejudiced the interests of the city of Valparaiso by unduly delaying the execution of the Loan of £1,100,000 for the reconstruction of the town after the earthquake, on the pretext of not causing a rise in the exchange, and with the object of benefiting the farmers: and if it were not so, what right have they to be benefited to the detriment of the city of Valparaiso?

Besides, our legislators, in their ignorance of commercial operations, believe that the exporting houses combine for the purchase of the agricultural products of Chile, when the contrary is the case: when generally there is a lively competition among them, a competition by which the Chilean agriculturalists profit. Also it is of no importance to foreign exporting houses whether the exchange on the notes is quoted at 5, 10, 15 or 18d. for their purchases of wheat. They, for their operations, make their calculations exclu-

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\* One *fanega*=160 lbs., more or less.

sively according to the European prices of the products, and also freights, insurances, commissions, etc., all in gold money. The figure that it suits them to pay in gold for wheat and other products, they reduce to currency at the prevailing exchange without the latter affecting them in the slightest.

To declare otherwise is to display ignorance of what really happens.

Let us hear what Don Roberto Espinoza says:

“If we have in Chile low rates of exchange that everybody laments, it is because the paper money has been depreciated; and if the paper money is at such a considerable discount, it is because neither in the State, nor in the legislative Chambers is seen the firm and honourable intention of paying the note; and if these intentions are not evident, it is either because the State or our legislators are unfortunately dominated by absurd theories, or because the influence of those interests that profit by the regimen of forced currency prevails in the National Congress and in the Government.

There are numerous antecedents for traders and the whole country to have reason to suspect that those interests dominate in the National Congress and in the Government.

But on this particular we shall say that nothing, absolutely nothing, is done in favour of high exchanges by Laws that fix times and methods of payments, if there dwell in the bosom of the Government or in the Chambers interests that labour publicly or secretly against the realization of those same Laws, as has happened and is happening in this country, in which subterfuges against the Conversion are multiplied whenever the dates fixed for its realization draw near, as also whenever voices are raised demanding the return to payments in metallic money.”

Thus we have made use of the opinion of the professor of political economy of the University of Chile, in order to judge the attitude of Congress.

The only manner in which the fiscal note of forced currency might recover something of its value would be:

1st.—The restoration of confidence.

2nd.—The gradual growth of the country and the consequent absorption of the notes in active circulation.

3rd.—Amortization of the fiscal notes.

In order to restore confidence it is necessary for the public authorities to change their attitude and proceedings, a very difficult question with the majority of the actual Congress. We can reckon a few distinguished men in both Chambers, but unhappily they are in the minority.

The absorption of the notes of forced currency in active circulation in a country by means of its development and growth is a very slow proceeding. Besides, with the actual composition of the Congress, hardly would the least diminution in the excess of notes be noticed than more would be issued, depreciating them anew.

With regard to the amortization of notes for the purpose of reducing the amount, the President of the Republic proposed that measure in his Message, in the following terms:

“Article 2 of the Bill, 3rd clause, authorizes the President to deposit in Europe or in the United States, \$ 500,000 gold that shall be taken monthly from the revenue of the custom-houses.

That disposition compels the withdrawal from the market of the monthly sum of £37,500. In any case I consider that circumstances might happen in which, instead of sending funds to Europe, the withdrawal of an equal value in paper money would be convenient, which would have the same result as regards the Conversion and has the advantage of being a direct step towards it, in a gentle and almost insensible form; for the \$6,000,000 that might be withdrawn during the year would represent only 4% of the total value of the issue. This measure would also inspire great confidence in the intentions of the Law and would have the effect of causing the interests to go on adapting themselves little by little to the situation that it pursues.

For the motives expressed, I have the honour to pro-

pose to you, that after the 3rd clause of Article number 2 of the Bill, should be added the following:

‘The President of the Republic shall be empowered to replace the accumulation to which the two previous clauses refer, with the withdrawal of an equal sum in the Exchequer notes in circulation.’

This very reasonable proposition was received with incredible irritation in the Senate; it was pronounced unconstitutional, contrary to the order and forms prescribed by the law, imprudent, unwise, etc.

The Senator for Curicó, one of the most obstinate partisans of the paper money, in the session of August 20th said as follows:

“And why does the President of the Republic to-day transgress our Constitution? With what object does he attribute to himself a faculty that it does not confer upon him? With the object of proposing the monthly withdrawal from circulation of a certain sum of fiscal notes, not to replace them with others, but simply to reduce the quantity of circulating medium, in order to put into practice an idea that economists, men of science, have ever condemned, and that when put into practice in our country produced disastrous results.

We all know that six months after the promulgation of the Law of November 1892 that ordained the periodical incineration of a certain quantity of paper money, the Chancellor of the Exchequer who succeeded, in the Ministry, the author of that Law, had to apply to Congress for its immediate derogation because the whole of trade and industry found itself profoundly embarrassed by the diminution of currency.

I remember that Señor Don Enrique Salvador Sanfuentes eloquently declared in this Chamber on that occasion:

‘While the ink was yet fresh with which was written the Law that ordained the reduction of the amount of currency that the trade of the country requires, comes the Chancellor of the Exchequer to beg for its derogation.’

So that this lesson is not learned, it is forgotten, and the President of the Republic violates the Constitution and, assuming a faculty that he does not possess, proposes that we should do precisely the same that was done in 1892 and that afterwards had to be annulled on account of the lamentable results that followed.

Not finding any justification for the violation of the Constitution nor for the fact that has produced it, I vote, **No!**"

The Senator for Curicó exaggerates and tells the story to his own liking. In a former chapter we have already explained and admitted that in the plan adopted for the Metallic Conversion in 1895 there were small defects of detail in its execution, but that these were easily remedied.

The panic of 1893 was not caused by the amortization of the paper money, that did not reach 3% of the total of the Exchequer and Bank notes in circulation, but was owing, as usual, to the weak state of the banks, and to the active and manifest hostility of the partisans of the paper money, that profited by the occasion to raise an unjustifiable outcry. In 1892 \$10,000,000 in Exchequer notes had been redeemed and withdrawn from circulation without any serious inconvenience being noted.

Besides, it must be remembered, in justification of the objections raised by the President of the Republic, that the fiscal issue in 1909 amounted to \$150,000,000, and there was plenty of room for a considerable amortization.

In the session of August 1910 the Senator for Concepcion said in the Senate:

"Still less can an issue of paper money be thought of. Who would dare to-day to suggest a new issue of paper money? The bank's coffers are replete, and they have more than sufficient to attend to the satisfaction of their deposits, so that this reason could not be given for advising that measure that cannot be even insinuated at the present moment."

So it is seen that the advocates of paper money themselves recognized that there was an excess of circulating medium of that class.



In 1893 the Exchequer issue amounted to only \$28,000,000. Besides, the President of the Republic did not propose the incineration of notes as an imperative condition but that, according to the circumstances, the incineration of notes, instead of the accumulation of gold, and in equivalent proportion, should be optional. In any case the incineration would not go beyond 4% of the total of the notes in circulation. So there was no justifiable motive for such indignant protests that were only a stratagem of the advocates of the paper money.

All this proves that the promise contained in the Law opposed by the President of the Republic, to effect the Conversion when the exchange, quoted in notes, should reach 17d., was only a mockery; because they did not wish to admit any measure whatever that might really conduce to that result.

The Law dictated establishes in its 2nd Article the following:

“Article 2nd. The Conversion Funds that by virtue of the existing laws are destined exclusively to the payment of the Exchequer notes shall be augmented:

(a) With \$500,000 gold, of 18d. that the Treasury will deliver monthly to the Mint, taking them from the Custom-House revenue, counting from January 1st 1910.

The President of the Republic can deposit these funds in Europe, or in the United States, in the form and on the conditions established in Article 6 of the Law of December 29th 1904.

(b) With the produce of the sale of Nitrate Fields and of land in the territory of Magellan that might be sold, in conformity with the laws, before January 1st 1915.”

This Article is another mockery complementary to the first, and the President of the Republic with good reason opposed it in the following terms:

“The 2nd part of the 1st clause of Article 1 of the Bill provides for the Conversion to be effected before January 1st 1915, if the average rate of international exchange should

have been 17d. during six months; but the Bill does not provide the necessary resources for the realization of the operation, for the 4th clause of Article 2 that orders the Conversion Funds to augmented with the produce of Nitrate Fields and lands in the territory of Magellan, to be sold in conformity with the laws, does not authorize the sale of those lands; and Article 4 of the same Bill annuls the authorization conceded by the Law of August 27th 1907 for contracting a loan destined to complete the Conversion Fund.

If the Law enacts that the Conversion should take place at some time after the exchange shall have kept during a certain period at 17d., it is necessary to provide the Government with the necessary resources for its realization, and consequently the authorization should be maintained of contracting a loan for the completion of the Conversion Fund."

This is evident to all except our legislators, for undoubtedly they have another intention: that of not establishing by any means whatever a stable regimen of money of a fixed value.

This question of the Conversion Fund has been a continual plaything in the hands of the legislators.

They issue notes for the purchase of bonds: paper for paper. They ordain first that the bonds remain in deposit for the guaranty of the payment of the notes. Later, by Laws of 1901 and 1904, they destine these bonds to another object, leaving the notes of forced currency in circulation without redeeming them.

They devote also by the Law of 1904, \$500,000 gold monthly to the increase of the Conversion Fund, which stipulation they annul in 1907 on the pretext that this measure forces down the exchange; but they establish it again in the impracticable Law of 1909 on which we are commenting.

They also devote nominally to the Conversion Fund the amount produced by the sale of the Nitrate Fields of the Provinces of the North and the lands belonging to the Exchequer in the territory of Magellan; but they take care not to authorize their sale, with the undoubted object of rendering this stipulation illusory.

The new Law establishes afterwards in Article 3:

"In the 1st half of 1914, or before that if the Conversion of the fiscal notes be decreed in conformity with this Law, the President of the Republic will cause to be transferred to Chile the funds destined for the coinage."

They will take care that this Article be annulled before the moment arrives for carrying it into effect.

Finally Article 4 establishes the following:

"Article 4.—Article 15 of Law 1992 of August 27th 1907 that authorizes the negotiation of a loan up to the value of £1,500,000 destined to complete the Conversion Fund is annulled."

This article was opposed by the President of the Republic in the following terms:

"It is well known that the increase of \$30,000,000 of fiscal issue ordained by the Law of August 27th 1907 was not commented upon by the President of the Republic for two primordial reasons: the 1st was that in the said Law the date of January 1st 1910, previously appointed for effecting the Conversion, was not altered; and the 2nd, that in that same Law the President was provided with the necessary means for withdrawing the paper money, being authorized to contract a loan destined to complete the Conversion Fund. On these bases the Law referred to of August 27th 1907 was approved.

The Bill presented to me postpones for 5 years the date of the Conversion, and suppresses the authorization to contract the loan necessary for the realization of the operation.

The President of the Republic cannot therefore approve these dispositions that are contrary to the fundamental prescriptions of the Law of 1907 relative to the paper money.

The paper money is in fact a forced loan, and without visible interest, but not on that account less high and effective, and in that aspect is more burdensome and prejudicial to the country than a voluntary loan at a moderate rate and reduced interest.

For that reason the President of the Republic has the

honour of proposing to you the suppression of Article 4 of the Bill.

The loan for a long period might be substituted for a credit during the 4 or 5 years that will elapse while the securities destined to complete the Conversion Fund are realized; but I think that in no case should the authorization be omitted of contracting a loan in some form or other."

Here we have another mockery of the legislators. In 1907 they induced the President of the Republic to promulgate a Law ordering an additional issue of \$30,000,000 in Exchequer notes of forced currency for the purchase of mortgage bonds, authorizing at the same time the negotiation of a loan for the payment of those notes.

Afterwards, in 1909, in spite of the observations of the President, they derogate the authorization to contract the said loan, leaving the notes in circulation without redeeming them, and without even adopting efficacious measures for preventing their further depreciation.

Thus it is seen that everyone of the Articles of this Law is a hoax.

The President of the Republic is very benevolent when, in the same message to the Congress objecting to the Law, he expresses himself in the following terms:

"The Laws on the withdrawal of the paper money have always been the results of accommodations of opinions that, starting from the unanimous design of restoring at some time or other the metallic currency as indisputable duties and considerations demand, have differed with respect to the ways and means of effecting this operation.

These differences have been generally of appreciations, adjusted more or less in some formula of agreement destined to become Law."

If the attitude of the Senate was violent against the President of the Republic for having objected to the Law dictated, the Chamber of Deputies was much more obstinate. As soon as it was known there that the President vetoed the Law, violent irritation was produced among the parti-

sans of the paper money. The President's Message was accused of being unconstitutional. That Chamber did not condescend to examine in detail the observations of the President of the Republic; it rejected them wholly and indignantly!

It was almost looked upon as treason to the country to express an opinion against the perpetuation of the forced currency and the indefinite depreciation of the paper money!

But there was one Deputy, and one only, who had sufficient courage to support sound doctrines and to protest against what was being done. Among other things he said:

“(Señor Darío Urzúa)—declares that in his opinion everything is already consummated.

In consequence of the disastrous economic Laws dictated in recent years, we find ourselves in a situation extremely deplorable at home and with such a loss of prestige abroad that we ought to blush with shame.

Some of the most important foreign publications show that our discredit has arrived at extraordinary limits... Pursuing his observations he points out that with this vote the desire is evident of not effecting the Conversion at present, and perhaps never.

These should be days of mourning for the country, for the homes must lose hope in the return to them of peace and plenty.”

These observations had no echo and the majority went on its course undismayed.

Nevertheless the President's observations were judicious, for the most part well-founded, and well-intentioned as we have seen, and for that very reason they were unacceptable to the majority of the Members of the Congress, intransigent partisans of the paper money and of the indefinite forced currency.

## Chapter Ninth.

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### Situation and attitude of the Chilean Banks.

There is another point in the President of the Republic's Message objecting to the Law approved by the Congress, on which we differ from His Excellency.

The President says:

"The rumour is equally unfounded that the good money may cause the failure of the banking institutions. The banks, more than anyone else know how to appreciate the advantages of their operations, they rest upon fixed factors and understand also that sooner or later the metallic currency must come.

Public confidence is weakened with the diminution of the value of the money, and the low exchanges produce general uneasiness. Confidence reappears and is strengthened in proportion as the value of the money goes on increasing.

Experience confirms this operation.

In 1895 the metallic currency was established, the note acquired the value of the gold and no bank found itself obliged to close its doors; on the contrary new banks were found-

ed and considerable capital was introduced into the country giving greater impulse to industry and trade."

In our opinion the organization, the situation and administration of the Chilean Banks is as a general rule defective. They are weak establishments that have lived for many years under the protection of the Government. They have no financial independence and are as a rule in perpetual difficulties.

The President affirms that in 1895 no bank was obliged to close its doors, which is exact, but owing solely to the shelter and support lent them by the State.

One of the factors that most embarrassed the operation of the Metallic Conversion in 1895, and that created most difficulties, was precisely the situation of the banks. They were weak, badly constituted and in general mismanaged beneath the regimen of the Bank Law of 1860 that, as is well known, is extremely defective.

The Government, in 1895, in order to be able to help the banks, raised a loan of £2,000,000, and applied the whole of it, not to the payment of the Exchequer notes, because there were plenty of funds for that purpose, but to assist the banks that asked for aid, as we have explained in a previous chapter. Consequently if they did not fail it was precisely for that help of the Nation's money.

If the banks comprehend, as the President says they do, that sooner or later the metallic currency must come, they do nothing to prepare themselves for it, nor does the existing Law on the matter compel them to adopt any measure directed towards that end.

In previous chapters we have explained how, by reason of the banks, the inconvertibility of the notes was imposed on us in 1878; how the banks hampered the Metallic Conversion in 1895; and how also the weakness of the banks contributed efficaciously and served as a pretext for imposing on us anew the forced currency in 1898.

But we prefer on this point to yield the word to Don Roberto Espinoza. He says as follows (*Financial Questions*):

“The banks were, in 1878, the cause of the forced currency, in consequence of the difficulties by which they saw themselves surrounded for the cashing of their notes and for the payment in coin of their deposits, seeing that they never took care to preserve a convenient relation between their reserves of metallic money and their issues and deposits...

But it was not the banks who suffered the consequences of that administration, it was the whole country that had to bear the burden of the results, through the Laws of forced currency dictated in 1878 that put into practice the principle of the strongest, and the principle that obligations resulting from contracts can be modified by the Laws and that the consequences of improvidence are not always bound to affect the improvident, but may fall on third parties...

In 1878, when the bank notes were declared to be paper money, it was said that the country had consumed more than it produced, that there was no equilibrium in the Balance of Trade, that the country had no currency...

In effect the cash of the banks, the metallic reserve of the banks, was very inferior to what it should have been under good management... but not on account of the want of equilibrium of the Balance of Trade... but because the banks had been too liberal with their loans without attending to the level of their cash; because they took no care to accumulate in their coffers the metallic money (either from the country or from abroad) which they needed, and because they did not augment their reserves in specie in the proportion demanded by the increase of their deposits and of their issues of notes.

Well, the interest of the country in 1878 and in 1898 was compromised in the failure of some of the banks... and the interests of the country demanded the forced currency....

Those Laws were consequently made for the salvation of the country; but the result of the Laws was that the country alone suffered, and that the banks in difficulties were the only ones that remained in a flourishing state, being able to distribute half-yearly dividends of 6% and 9%.



To proclaim the failure of some of the banks a public calamity, is something that has always succeeded in lulling the conscience of Chileans.

The bad situation of the banks in 1878 and in 1898 was not general.

On the other hand those situations, identical in reality, were only temporary; and in the case of the failure of some of the banks, that failure would not have had the painful and calamitous consequences of the forced currency during 27 years.

The failure of some of the banks would have affected, and to a limited extent, a part of the bank deposits or a part of the capital invested in bank shares, seeing that the banks would not have lost all their capital

Besides, it would have made our lawgivers think seriously of reforming the Law of Banks of Issue, and our banks of the necessity of better management.

We have witnessed recently the failure of three banks; and even though there have been losses to lament, those liquidations have not been marked by any derangement in the trade of the country that has continued its march of economic expansion.

And finally, supposing that all the banks of issue, without exception, were in a bad financial condition and that our statesmen had not sufficient valour to witness unmoved the failure of all the national banks, both the State and the legislator in the year 1878 or in 1898 could have simply transferred the bank issues to the State, as we have said, rather than resort to the forced currency that marks a regimen of spoliations.

With all this it was preferred to lay to the charge of the want of equilibrium, as it was said, of the *Balance of Trade*, the reason for the forced currency of 1878 and 1895. In this manner public opinion could not rebel against what are called natural laws, that is, against itself, seeing that the country was guilty of causing the want of equilibrium by reason of its excessive consumption.

Chile, in 1878, was precipitated towards all the disasters of the forced currency by the Banks of Issue, as we have demonstrated elsewhere, in consequence of the extreme liberality of the Law of 1860; of the improvident administration of those institutions, that found themselves in the position of being unable to attend to the service of their deposits and to the exchange of their notes for metallic money, seeing that their reserves of specie never received their due attention; and finally, in consequence of the complacency of our legislative bodies and of the influence of our bankers in the Legislature and in the State.

Well then, the country having been launched by the Banks on to the forced currency, as we have said, emerged from it in 1895, and entered into the metallic regimen, without the necessity of being *prepared* beforehand; but the Banks of Issue, that had lost none of their defects during the 17 years nor had in any way whatever improved their administration; that were under the same pernicious statute of 1860, and that had lost none of their powerful influence in the Legislature and in the State, overwhelmed the country again in 1898 with a shower of paper money, just as they had done in 1878, according to all we have related in a previous chapter."

In another publication Señor Espinoza adds:

"The country returned in 1898 to the forced currency, not by reason of errors in monetary matters committed by the State, as happened to Italy, but to cover or dissimulate the state of bankruptcy in which a powerful banking institution with deep roots in the legislature and in the Government the public that the country went back to the forced currency

Of course this retrogression towards the forced currency has admirably served the partisans of paper money in Chile for speaking to the public, that does not comprehend these matters, in an absolutely unintelligible manner. Some assured the public that the country went back to the forced currency 'because it was not prepared', because its 'organization was anaemic' and 'it could not digest the metallic money'...

others told it that 'the *Balance* was unfavourable' and for that reason the gold emigrated... others 'again have declared that 'there were fears of war with the Argentine Republic...' "

Thus in Chile the forced currency came in the year 1878 and afterwards in 1898, in consequence of a fact entirely analogous to, if not at bottom identical with what happened in England at the time we have referred to.

The Banks of Issue found themselves at a given moment without sufficient metallic money to meet their engagements (deposits and notes payable at sight to bearer), not because the Government of Chile had made use of the metallic money of those institutions, but because they never took the precaution to maintain in their coffers the metallic money indispensable for attending to the fulfilment of their obligations and to assure their stability.

This notion never appears, at any time, in the policy of the Chilean Banks, nor even in the legislation destined for the control of these institutions.

The Banks of Issue always looked upon it as of secondary importance, or rather they never took the trouble, to maintain in their coffers a constant and sufficient reserve of metallic money for the service of the deposits of the public and for the exchange of the notes payable at sight and to bearer.

It may be that some errors about the nature of the money; perhaps some error about the nature of the bank notes (payable at sight to bearer); possibly the desire to do the best possible business, or perhaps the favour of the influences on which they have been able to depend in the Legislature and in the Government, have caused them to dispose of all the metallic money that came into their coffers, in order to put into movement their own capital, that of their depositors and the notes... the fact is that those errors or want of foresight, or those influences, or all those factors combined have now given us the forced currency on two occasions, in 1878 and in 1898.

In other words, the forced currency in Chile, the same as in England, has been an entirely monetary phenomenon: the state of "suspension of payment" of the institution that issues the notes."

This is what Señor Espinoza affirms in his important publications; and Señor Guillermo Subercaseaux (another professor) states:

"The new inconversion of 1898 was caused solely by the necessity of saving the banks from a run, without the financial factor contributing to it; it was rather a question of a panic in consequence of the fear of war."

Well then we say, if the Chilean Banks drag us into this conflict with merely the rumours of war that did not break out, what assistance would they be capable of rendering to the nation in the event of a real conflict, in the case of declared war?

They would be simply a stumbling block. Are they in need of reform, or not?

In 1910 the situation is much worse in this respect; there are many more banks in Chile than in 1895, and they have very much more influence in the Congress. On the other hand, to help the banks that should demand aid, as in 1895, the State would require very much more money, and if to this be added the circumstance that already many of the Chilean Banks are debtors to the Exchequer for large sums of money, the difficulty of realizing the Metallic Conversion in 1909 will be undersood, on account of the weakness of the banks.

Señor Espinoza (*Financial Questions*) affirms:

"To realize the Conversion of the paper money without a previous or at least immediate reform of the Law of Banks of Issue, would mean that none of the precise causes that brought the forced currency of 1878 and of 1898, were taken into account."

We have said the same thing in the preamble of our Bill for the New Bank Law, published in 1908: we said as follows:

“The regulation of the banking system of Chile, established by the Bank Law of 1860, has not given a good result, although the general scheme of that Law is not entirely bad. What is wanted are more severe rules for the protection of the interests of the public who trust their capital to the Bank, and of the interests of the country that needs to put an end to the frequent disorders in money matters that are so prejudicial to it. It is improbable that the metallic circulation may be firmly re-established in Chile unless the organization of the banks be reformed. It can almost be said that in order to realize the Metallic Conversion it is a question of first reforming radically the Bank Law, for while the actual legislation prevail we shall never have solid institutions.”

We stated this in the preamble of a Bill for a Bank Law when we yet had some hope that in Chile the divers financial questions of public interest of which we have been treating in this essay might be correctly regulated.

Let us hear again what Señor Espinoza says:

“The danger to the Conversion, that we have insinuated, is in the Banks of Issue that brought the forced currency in 1878 and in 1898, and that, given the composition of our governing and legislative circles and their close relationships with the Banks, might revive again in 1912 or in 1915.”

This is evident; Señor Espinoza is quite right. The Chilean Banks made no preparation whatever to help, or rather, not to hamper the re-establishment of sound money, nor does the actual law in force oblige them to do anything in that direction. Besides, they have to do with a Congress in which the partisans of the indefinite paper money dominate almost absolutely, a Congress that seeks any pretext whatever for increasing the issue of forced currency, for prolonging its indefinite subsistence, and also for breaking up the Fund of money that is apparently destined to the payment and withdrawal of the said notes, that is, to the realization of the Metallic Conversion.

With the attitude of Congress and with the marked influence of the Banks, any reasonable reform in money

matters in Chile will be impossible unless the Public Opinion be awakened to defend the real interests of the country.

Some have preached the necessity of establishing in Chile a great State Bank, but this is not advisable in a country like ours where politics dominates all. We should run the serious risk of its elements and resources being dedicated to political ends. More convenient for Chile is a system of plurality of banks, but severely organized like those controlled by the existing Law in force in Canada.

This system is the one recommended by us, in a special pamphlet, for adoption in Chile.

## Chapter Tenth.

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Those who profit by the depreciation of the paper money

— I —

Those of us who directed and executed the Metallic Conversion in 1895 believe that we effected the operation with some sacrifice for the country; but an insignificant sacrifice compared with the immense benefits that that monetary reform would have conferred if what was then done had been respected. We admit that in the execution of that reform there were errors of detail, but that these were relatively insignificant and it is well known that they were easily remedied.

The Exchequer report for 1895 affirms textually the following:

“We believe that few nations will have succeeded in abolishing the forced currency and withdrawing the paper money with less sacrifices than Chile, without affecting our credit nor compromising our future.”

— II —

In 1898, as we have explained in a previous chapter, the aspect of affairs changed completely; other men predominated in the Government and, without sufficient reason, re-established the forced currency. In his book, "*The Science of Finance*", 1906, M. Paul Leroy Beaulieu expresses himself in the following terms:

"It is sad that Chile, that had returned a few years ago to payment in specie, should have relapsed, in consequence of some imprudent acts, into a forced currency in 1898.

This lamentable relapse could have been perfectly avoided.

Chile still foolishly increases, in 1905, its issues of notes.

This country, that for a long time was at the head of South America, has allowed itself to be left behind by the Argentine Republic and by Brazil.

"Will other nations return to the metallic regimen? Portugal is on the point of doing so. It would be desirable that Spain, Greece, Chile, Brazil and the Argentine Republic should succeed in doing so. Chile with its absurd issues of paper money in 1905 has turned its back on reform."

M. Leroy Beaulieu did not then know that a great part of the evil arose from the bad situation and the debility of the Chilean banks.

The consequences of the return to the forced currency in 1898 have been disastrous. Everything has been thrown into disorder, all the Securities issued on the basis of paper money have been depreciated enormously, estimating their price in real money, and much capital has unjustly changed hands, silently, but in the form of a real spoliation.

— III —

With official data, it is possible to determine exactly the effect that this situation produces on capital and on savings.



In 1909 an official meeting was held with much ceremony in Santiago to celebrate the development of the Chilean savings-banks, and for the purpose of rewarding those who had been most persistent in their habits of saving small sums of money. Among those rewarded was Señorita Rosario Castillo who had been very persistent in that practice during twenty consecutive years. From January 1889 up to December 1908 she had deposited punctually a monthly instalment in the Savings Bank. Her account being liquidated shows as follows: that during 240 months she deposited \$7 monthly, which is equal to a total deposit of \$1,680 in Chilean currency.

In the month of January 1889, when Señorita Rosario Castillo was induced to make her first deposit of \$ 7, the value of the Chilean peso in French Money was Fr. 3.05; that is to say the exchange was quoted at that figure.

But even leaving out that fact, and taking only into account the Monetary Law dictated in 1895, that reduced the Chilean peso to the value of 18d.; the depositor has had to suffer a considerable loss.

The Chilean peso of 18d. corresponds in French Money to a value of Fr. 1.875.

On that basis (Fr. 1.875) the deposit of \$ 1,680 of Señorita Castillo ought to be worth after 20 years, on December 1908, Fr. 3,150.

Reducing each monthly deposit of \$ 7 to French Money at the exchange prevailing at the time of deposit, that is to say to the effective value that the paper money had then in the market, and adding up, in French Money, the value of the 240 deposits, the result is that Señorita Castillo ought to have had the right to Fr. 2888.90. This sum corresponds to \$ 1,680 reduced to French Money monthly, at the time of each deposit.

Converting into French Money the \$ 1,680 at the actual exchange that prevails in the last month of the twenty years, that is to say Fr. 1.22 per peso, Señorita Castillo's deposit was reduced to Fr. 2049.60.

And if Señorita Castillo, as is probable, has not drawn out her deposit and has waited until June 30th 1910, the total deposit of \$1,680, amassed with much sacrifice during the previous twenty years would be only worth, in French Money, Fr. 1831,20, for the Chilean peso (paper) had been depreciated at that date, to be worth only Fr. 1,09.

It follows from all this that the depreciation of the Chilean paper money from the promulgation of the New Monetary Law of 1895 up to June 30th 1910, inflicts a loss, on Señorita Castillo, of almost 42% of her capital; and if only the effective value of each deposit at the time of its being put into the Savings Bank be taken into account, she has to suffer, by all means, a loss of more than Fr. 1,000.

As an appendix to this essay, we insert a complete calculation, month by month, of the deposit of Señorita Castillo, reducing it to French money, so that it may be examined by those who are interested in that matter.

The example that we have quoted refers only to a single account, with a total deposit of \$ 1,680. Well then, according to the statistics published on December 31st 1909, in all the Savings Banks in Chile there existed 249096 accounts with a total deposit of \$27,293,164. All this money is invested in Bonds of the Land Bank and all continues to be depreciated in the same proportion.

There also exists in Chile the Savings Bank of Public Employees. This institution has been working for more than half a century, in Santiago. Its object is to facilitate and encourage saving among the employees of the Nation.

The capital of this Bank is invested in the Land Bank (Caja de Crédito Hipotecario) and other similar institutions.

On December 31st 1899 the sum total of the deposits was \$1,954,000. On December 31st 1909 the total amount of deposits was \$ 3,843,000.

The value in French Money of the Chilean note on December 31st 1899 was Fr. 1.73 and on that basis the \$3,843,000 ought to have produced \$6,648,390 Francs; but

as on June 30th 1910 the Chilean note was depreciated much more and was only worth Francs 1.09 it follows that the \$3,843,000 were now only equivalent to 4,188,870 Francs; so that the public servants suffered a loss of Fr. 2,459,520 or 37% of the capital since 1899 alone.

The depreciation of the paper money continues its course. It is probable that the public servants may find themselves deceived...!

With these data in view, it is possible to estimate the colossal defraudation of their savings to which the depositors in the Savings Banks of Chile, whose deposits go on increasing, are exposed; and it will be understood also that in view of these facts the President of the Republic, Señor Montt, had more than sufficient reason when, in his Message to Congress vetoing the Law of August 1909, he made the following observations:

"A country in this situation is certainly prepared to receive good money, especially when it is observed that in the midst of the general well-being, and as a dolorous exception, there are numerous homes in which scarcity and almost misery prevail, caused, not for want of work, but by the diminution that the paper money produces in the effective value of salaries, and of incomes that are the fruit of long years of labour.

The restoration of the metallic currency, demanded by the highest considerations, would do away with the want and suffering to which many families are without reason subjected.

#### — IV —

But... what is the method or the manner by which the supporters of the forced currency profit by the subsistence of that regime?

It is now well understood in Europe as M. Jacques Lyon points out in his important essay "*The monetary policy of the Argentine Republic and of Brazil.*"

He says:

"The exporters, the agriculturalists and the dealers in live stock find, indeed, their advantage in the continual increase of the premium on gold that allows them to exchange the specie that they receive from abroad in payment of their products for a continually increasing quantity of paper money with which they pay the costs of production.

This is what the agrarian protectionists of Europe have always denounced as a premium on exportation that benefits the countries that have a depreciated currency, and against the effects of which the former demand the increase of duties in the European custom-houses. It is true that in such circumstances prices in the interior of the country, as well as wages, experience a certain rise that, however, is in no case proportionate to the premium on gold, and still leaves the producers a considerable margin of profit.

If it is true that when exchange falls the value of the products of industry or of agriculture payable in gold increases while the costs of production payable in paper money is only modified in much less proportion, the contrary phenomenon is produced when exchange rises and tends to approach par. The value in paper money of the goods exported diminishes while the cost of production remains practically the same..."

And in Chile Señor Espinoza describes it in the following terms:

"With all this, the agriculturalists form in the Congress a group that always, in name of the country, oppose every project for the conversion of the paper money; just as they always complain of any reaction observed in the forced currency (that is, any elevation in the rate of international exchange in Chile) at the moment when they are preparing to sell their crops of wheat; so that to a great extent their expectations are founded on the continued depreciation of the currency.

The agriculturalists, in their eagerness for the depreciation of the money, have always been accompanied by the

miners of the country, and in general by all those who have had goods to export.

In this manner, when the rest of the country has anxiously awaited a cessation in the fall of the paper money (or, as is always said, the fall of the rate of international exchange) the farmers and miners have observed that depreciation with great joy; for thus they could receive "*better prices*" (in paper money) for their products.

The farmers and miners would be very content if the paper money, instead of being worth 11d. should be worth only 1d., for then they would obtain for each fanega\* of wheat the considerable sum of \$132 although each *peso* were only of the value of 1d.

We do not know if we express ourselves with sufficient clearness to demonstrate the point of view in which the farmers and miners place themselves. They want the paper money to be worth as little as possible in order to obtain for their products the greatest possible number of pesos. This is their ideal and we shall soon see the reason for it.

As the agriculturalists or farmers and the miners wish to receive for their products, as we have just seen, the greatest possible number of "*pesos*" without taking into account whatever the intrinsic value of that monetary unit called "fiduciary peso", let us investigate the reason for a desire so strongly maintained and so contrary to the interests of the majority.

It is to be observed that the farmers and miners constitute a very important part, if not the principal part of the country, by reason of their fortune and social position, and of their influence in the Government and in the Legislature.

If it were possible to understand the purposes that these circles pursue with the depreciation of the currency, many things would be explained. We shall try here to discover this secret.

It is well known, and also very easy to demonstrate,

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\* a fanega=160 lbs. more or less.

that money, whether of gold or of silver, or whether it be represented by paper money, can only have one of the following objects: it serves for the acquisition of things to be found in mutual dealings in common life, such as the purchase of houses, lands and goods, the payment of services or the remuneration for the use or enjoyment of something; or it serves for saving or accumulating; or its object is the measure of values, that is to say the designation of prices; or it serves for cancelling or paying obligations that are susceptible of extinction by means of money...

It only remains then for us to examine the last-named function of money—that of releasing all kinds of obligations—and to confront this function with the interest of the farmers and miners, to see if it is possible to find the reason for that eagerness which we have been noticing.

Therefore let us consider the position of the farmers with regard to their engagements with the *Caja de Crédito Hipotecario* and other Land Banks by reason of the loans they have had to pay for their farms or for working them; let us consider the position of the miners with regard to the obligations that they have contracted with the Banks of Issue for working their mines or for buying machinery... — let us consider both with regard to the obligations that they have with the State and the Municipalities by reason of the taxes they must pay for their farms, their mines, their carriages, their wine vaults... let us consider them with regard to what each must pay for freight to the State railways on account of their timber, their cereals, their milk, their animals, their metals... let us consider the wages they pay to their labourers, to their managers and to their foremen... and we shall see if the depreciation of the fiduciary currency favours them or not; if indeed their complaints, on every occasion that the paper money experiences a reaction, have any foundation, and if the maintenance of the paper money is convenient for them or otherwise...

Here is found precisely the secret of the policy that our legislators and agriculturalist-statesmen have developed dur-

ing so many years around the paper money that, it must in justice be said, did not come through them, but they have been the most skilful and the most ardent champions of the maintenance of such a state of things.

In effect, obligations do not rise although the paper money fall; nor do the taxes nor the freights nor the wages rise; but what do go up are the prices of land, of house rent, of timber, of wheat, of animals, of milk, of forage, of wine, of nitrate, of copper, of coal... in proportion to the fall in the fiduciary currency, and sometimes in a somewhat higher proportion.

It will be said that freights and wages also increase: yes; but always very slowly and never in proportion to the fall in the paper money.

As it is seen, the principal ones who, in Chile, profit by the depreciation of the paper monetary unit, are the owners of agricultural property.

They are the ones principally who have contracted obligations with the banks, and have negotiated mortgage debts that are represented by many millions of mortgage bonds in circulation. The mortgagers have to pay for those bonds and other debts in paper money and thence the convenience to them of that currency being worth as little as possible."

And in other publications Señor Espinoza adds:

"It is true that to a great extent the prosperity of the farmers has been owing: to the high prices obtained for their products under the paper money regime; to the low wages that, favoured by that same regime, they have paid to their labourers, foremen, managers, and to all their other employees; to the taxes and freights, continually decreasing, that they have paid with that same note; to having been able to pay their mortgage debts with constantly decreasing real values by means of that same paper money... but, the fact is that agriculture has prospered, whatever may be the combination of causes that has produced that development.

There exists, therefore, an evident fact, that agriculture

has prospered, and that possibly the farmers have prospered even more than the agricultural industry.

The easiest way to prosperity for our large farmers is by means of the paper money, thanks to which, by selling the products of their farm at gold prices and paying their debts, as well as wages, freights and taxes in paper money constantly decreasing in value, they succeed in seeing their income increase, although they may employ no manures, no irrigation canals, nor the best methods of cultivation, nor machinery.

— V —

We know already that the Administration of the fiscal Savings Banks has invested \$32,000,000 of the savings of the people of Chile in bonds of the Land Bank that go to fill the pockets, by the medium of that institution, of the agricultural-property-owner legislators.

As we have explained, taking for example the case of Señorita Castillo, the holders of those bonds have already lost, up to June 30th 1910, more than 40% of their capital, taking into calculation only the value of the gold peso of 18d. that should have subsisted since 1895. That loss suffered by the depositors is naturally a gain, in equal proportions, to those who have to pay the said bonds, for it constitutes a reduction of the debt.

Calculate the loss up to June 30th 1910, on the \$32,000,000 in bonds, to the depositors in the Savings Banks with the depreciation of the 40% already consummated; and how much they will continue to lose with the greater depreciation that continues...

The State also possesses \$34,000,000 belonging to the Conversion Fund, invested in bonds of the Land Bank and \$22,000,000, more destined to other objects which, in their depreciation, follow the same road as the rest.

These lots of mortgage bonds alone, together with those that belong to the Public Employees Savings Bank, amount



to \$92,000,000 the value of which in gold is already depreciated by more than 40%, which means for the community a loss of more than \$37,000,000, whose value passes silently into the pockets of the agriculturalist-legislators because they meet their engagements with an equivalent reduction.

If to this be added the investments in the same securities, made by numerous Benefit Societies, by guardians of minors and other functionaries compelled by law to investments in that form, and the bonds of the same class that are in the hands of widows and other persons not well-informed on the matter, it will be understood that the total amount invested in mortgage bonds is a very large one.

The real value of it all continues slowly to evaporate.

When a Law is dictated ordaining the issue of notes and the purchase of bonds, naturally the bonds, appreciated in paper money, rise in the market. It is, indeed an artificial rise, but as it is to the benefit of the legislators,, who are partisans of the paper money, they find it a very natural one.

When they wish to sell those bonds, and throw them on to the market, we shall see how the price will fall *artificially also*, for there will not be sufficient buyers to take them up quickly.

The total amount of bonds issued by the *Caja Hipotecaria de Chile* was, on December 31st 1909, \$182,000,000; and according to Señor Espinoza, "the savings, the deposits in the banks, the investments of monetary capital in shares of industrial companies and in bonds, amount to more than 1,000 millions of pesos."

We have already shown that there are at least \$92,000,000 in the public offices, and many millions more in the power of Benefit Societies, which means that certainly the greater part of the bonds issued by the *Caja Hipotecaria* is now in those hands.

The bonds arise from loans made by the Land Banks to the property-owners who are in need of funds. It is convenient for these owners that the value of the currency with which they pay these bonds be depreciated as much as possible:

Señor Espinoza states:

"The depreciation of the paper money, in whatever country they be observed are not acts foreign to the will of the issuer but, on the contrary, consequences of that will, whether it be denominated want of foresight or ignorance of economic principles.

It must be added also, that the depreciation is entirely foreign to the successive holders other than the issuer of the paper.

The paper money is depreciated also by the insecurity that surrounds its payment, at par, in metallic money, or by the doubt with regard to the period of payment, just as its value invariably rises with the security acquired with regard to its exchange for the promised metallic money.

The honesty and solvency of the debtor are two inseparable and prominent factors in the valuation of the paper money.

## — VI —

In Chile the partisans of the paper money, that is, the circle that actually predominates in the Congress on this matter, are very fond of citing the acts of the Argentine Republic as worthy of imitation.

Well then, what have been the proceedings of the Argentine Republic in this matter?

A few years after the declaration of the Argentine Independence, the issue of notes was begun in that country in 1820.

In 1826 was declared the inconversion of the notes of the *Bank of Discount* that afterwards formed the basis of the *National Bank*.

In 1828 the note was already much depreciated and the *gold onza* that was worth 16 *pesos fuertes* (metal) was quoted at 11½ *pesos paper*. The issues were increased and naturally the notes went on falling in value; in 1840 the gold *onza* was equal to \$514 paper. In 1867 the *Office of Exchange* was

created and there the paper money was exchanged for gold at the rate of \$25 paper for \$1 gold. Thus \$2,500 paper were reduced to \$100 gold.

In 1876 the Exchange Office was closed and the inconvertibility was established of the notes of the then *Bank of the Province*, and they were again enormously depreciated. The course followed in 1867 was already known, and in 1881 the paper money was again converted in the same proportion as before, that is to say \$25 paper for \$1 gold.

Thus \$100 paper was reduced to \$4 gold.

In 1885 the inconvertibility came on for the third time, and naturally the issues of notes increased and the depreciation of the paper money continued its natural course also.

In January 1892 the premium on gold was 390%; afterwards it fell.

In 1899 when there were in circulation \$322,000,000, in paper money *for the third time inconvertible*, the *Caja de Conversion* was created for converting gold into paper and paper into gold at the rate of 44 cents gold for each paper peso, being equal to a premium of 127.27% on gold.

Thus \$4 paper were reduced to \$1.76 gold. Summing up, we find that \$ 2,500 of the primitive paper money issued in the Argentine Republic from 1820, with the promise to exchange it for gold, were reduced to the derisive value of only \$ 1.76.

And the example of the Argentine Republic is widely proclaimed in Chile as an example worthy of imitation...!

Don J. M. Rosa, the Argentine Chancellor of the Exchequer, in his report for 1900 said:

"The study of the Conversions that have been effected in different countries has persuaded me of the truth of this principle: that if the money in a given country have suffered a great depreciation prolonged during a sufficiently long period, so that the economic conditions of the country have become radically transformed, it is impossible to return to the former par of exchange."

That functionary stated this after the third lapse of the Argentine Republic into inconvertibility...

With regard to this, Señor Espinoza says:

"The Argentine Republic that, overwhelmed by the paper money, also found that it had had to suffer great losses by the persistent depreciation of its currency; that saw afterwards a violent reaction take place in that same currency, resolutely attacked the money itself, fixing the value of its paper at 44 cents.

The interests of certain circles that there witnessed unconcerned the continual fall of the paper money, because that fall was favourable to them, could not look on impassively at the reaction, and placed an obstacle to that rise of a precisely monetary nature."

## — VII —

But in our country there are no probabilities that even measures similar to those to which we have referred be adopted.

The creation of a Conversion Bank has been also proposed here, for the exchange of notes for gold at the rate of 12d. per peso instead of 18d. but the idea does not find favour. The scheme of a Conversion Bank is bad for several reasons. The principal argument adopted has not been the fulfilment of the engagement to pay the Exchequer note at the established and promised rate of 18d., but a method has been sought of preventing it rising in any case above 12d., without providing any guarantee against a new inconvertibility and consequently against a further depreciation.

In Chile, the interests of the farmers are relatively stronger than in Argentine or in Brazil, and also the Executive here has less attributes than in those countries, and the partisans of the paper money represented by the Agrarian League, predominate in the Congress.

Those interested in the stability of the value of the money are in reality the immense majority, but practically they have no representation in the Congress and are impotent...!

Taking into consideration the men who have a predominating influence in Public affairs, the want of knowledge of the Press, and the indolence or the absence of public opinion, a correct remedy for the situation cannot as yet be seen. The men who govern us are the same, or even more ardent partisans of the paper money than those who dictated the Law of 1898!

The Agrarian League is an organization representing the owners of agricultural property, formed with the object of exerting influence in the election of Members of Congress, and in the working of that corporation for the benefit of their adepts.

There is not the least doubt that they have succeeded in their object as regards the alleviation of their own debts by means of the gradual and persistent depreciation of the paper money.

Señor Espinoza describes what has happened and what is happening in Chile, in the following words:

“Let us suppose the existence of a debt of \$1,000 of 45d., to be cancelled with yearly dividends of \$100 including interest, amortization and commissions.

Thus, in December 1877 the farmers who should have paid for a debt of \$1,000, for which we have supposed a dividend of \$100 of 45d., paid indeed that sum: that is 4,500d.; In December 1887 they should have paid an equal sum and only paid 2,500d., in December 1897 they should have continued paying 4,500d. and only paid 1,750d. and finally in December 1907 they only paid 950d.

This last dividend would have left the agriculturalists a net profit of 3,550d., a sum equal to the loss sustained by their mortgagees.

From this point of view the forced currency is favourable to the farmers and owners of agricultural property seeing that beneath its protection they may despoil their creditors without the latter uttering lamentations nor bitter complaints.

The agriculturalists have also been, as a matter of fact, the most decided supporters of the paper money.

It follows from all this that not only the rise of wheat in the universal market, that is, in the great cities of Europe, America, Asia and Australia, and the diminution of the cost of production, but also the fall in the paper money is favourable to the agriculturalists; so that not being able to operate upon any of the first elements of the price, and being able to operate efficaciously on this latter factor, they will exert themselves for the perpetuation of the forced currency in which the note may continually fall in value and be worth as little as possible from day to day.

Therefore the circle of the agriculturalist debtors of the Land Bank is, for very powerful reasons of personal convenience, interested, not only in the persistence of the forced currency, but also in the progressive fall in the paper money, and even in preventing the possibility of any reaction because that might be to their disadvantage.

As is well known the owners of agricultural property form in Chile an important group in the Legislature and in the Government, and it is here also that one of the greatest obstacles to the restoration of the metallic currency originates; but it is here also where there might be adopted, by an important fraction of the public, a corrective against the spoliations that are committed beneath the protection of the paper money."

## — VIII —

To show the ascendancy that the agriculturalist-legislators have gained in Chile and the position they have managed to acquire, we shall quote the following words of a Senator for Concepcion in the session of the Senate on August 11th 1910:

... "I cannot imagine what all that has to do with the situation we are contemplating. Do the agricultural and mining industries contribute anything to the increase of the national revenue?

The agricultural industry, Mr. President, pays no export duties, nor import duties on the implements and machinery

required for the cultivation of the land. For it, railways are constructed that usually leave no interest on the capital invested. The same can be said of the mining industry. These two branches of the national production absorb a great part of the revenue of the nation but contribute very little to it, no more than what we all contribute by the acquisition of the articles of consumption that we require.

On the other hand the agricultural industry pays no taxes to the Exchequer. It pays a very small municipal tax that is generally out of all proportion to the real value of the property, consideration had to its power of production. And I am of opinion that this privileged situation of the agricultural and mining industries should not be altered, but should subsist, because I consider that the national revenue is sufficient for the expenditure that we ought to incur and to which we should limit ourselves!"

And with regard to their still more exaggerated pretensions to make use of the State Railways for their own ends, an article published in the Press says as follows:

"The deliberations of Congress on the different tariffs proposed by Mr. Huet are still fresh in our minds; the prevailing opinion of the agricultural representation *was that of considering the railway service as a free service*, like the police force, like the funds for the poor, like the State schools.

This criterion admits of no half measures; according to it, the service of transport should be free; by what right is the railway client charged a given sum if the service must be maintained by the community?"

So it is seen that the agriculturalist-legislators in Chile have organized everything to their own advantage.

And further, with unequalled audacity, they menace the Government if it attempts to raise the railway tariffs in order to cover at least its expenses, according to the following expressions of one their organs:

"Another attempt is made now, by raising the railway tariffs, to remedy in part the deficit to which we have been driven by the administrative carnival.

It is high time for the agriculturalists of the country\* to give the Government to understand that they are tired of enacting the part of the scape-goat on which was laid the sins of the whole tribe.”

.....

And this threat is made in spite of the fact that the minister announces in the Congress that the working of the railways leaves a monthly deficit of \$2,000,000...! The regime of losses in the business of the railways cannot go on for ever. The country has to bear them in any case; and those burdens are at present distributed with manifest injustice.

## — IX —

The advocates of paper money in Chile are planning another attempt, and, given their predominance in the Congress, that does not legitimately represent Public Opinion, it would not be at all strange if they attained their object. They cherish the idea of founding a Stàte Bank with the object of providing the agriculturalists with funds, allotting to the said Bank, as capital, the whole of the Conversion Fund accumulated with such labour and in the face of so many obstacles. It is notorious that the notes of forced currency were issued with the promise of being paid from that fund that was dedicated by law exclusively to that object; and consequently that money is not fiscal money, but it belongs to the owners or holders of the notes in circulation and is only in the custody of the Exchequer.

Well then, the partisans of the paper money, not satisfied with the advantages they have already obtained by the depreciation of the currency, now attempt to seize indirectly the Conversion Fund, diverting it from its lawful object and again disappointing the hopes of the holders of the Exchequer notes in circulation.



— X —

One of the organs of the supporters of the paper money, singing the praises of the great advantages of the paper currency and the benefits it produces, says as follows:

“Santiago is becoming a handsome city and in all directions sumptuous palaces are being raised as well as immense premises for the installation of great commercial enterprises.”

But who are erecting these palaces? It is easy to understand that it is not those who deposit their money in the Savings Banks...!

## Chapter Eleventh

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**The country although in a good condition, driven by its  
legislators to repudiation.**

— I —

The first ten chapters of this book having been written, we were surprised by the fatal news of the death of the President of the Republic, His Excellency Señor Don Pedro Montt; a lamentable event that can do no less than prejudice the monetary condition of the country. It is well known that the late lamented President had fixed and clear ideas with respect to the convenience and urgency of the monetary reform, and it is doubtful whether his successor, whoever he may be, will hold such resolute opinions as those of Señor Montt.

If he, with all his decision and energy, and clear ideas, could not prevent numerous acts of the Congress decidedly contrary to the interests of the public, what will happen afterwards...?

— II —

The general economic situation of Chile must be studied beneath five separate and distinct aspects, to wit:

1st.—Its geographical situation: the whole of the territory near the sea; the climate, the natural condition, quality, and productions of its soil and of its waters, all very good elements.

2nd.—Its population, although not numerous, intelligent, vigorous and laborious.

3rd.—Its industrial and commercial conditions, prosperous, sound and productive, developing regularly and rapidly.

4th.—The situation of its Exchequer, in spite of defects of administration and of numerous errors committed, is prosperous also, for the revenues are abundant owing to the good conditions of the country; and the public debt being moderate can be served without great difficulty, and besides, is totally represented by the railways, lands, and other fiscal property; but

5th.—Its monetary and banking situations are nevertheless disastrous owing to the want of judgment that the public authorities have shown in the laws dictated.

Señor Espinoza says:

“But in the face of this spectacle that consoles and satisfies the ardent wishes of all who are interested in the prosperity of the nation, we see our money continue an opposite course; from year to year it decreases in value and consequently we see our rate of international exchange fall from day to day; from the 45d. quoted in 1874 we see it come down to 7½d. in 1908.

In the face of that spectacle of the individual activity and collective energy that, from all points of the horizon,

raise towards the sky a work in which are revealed their desires and struggle for progress, we see our Members of Congress, our Statesmen and our Government commit, in monetary and banking matters, all kinds of blunders."

— III —

The picture before our eyes is curious and mortifying.

Beneath one aspect a beautiful country, sound, productive, prosperous, and of brilliant natural conditions: and beneath another, dominated by a disastrous monetary situation that causes enormous damage. Travellers who come to Chile are surprised at its great fruitfulness. Sr. Aaron Pavlovsky, member of the Argentine Commercial Commission that visited Chile recently, expresses himself as follows:

"The products are of the most varied kind that can be found in any one country. Arriving at Santa Rosa de los Andes we have tasted delicious ripe grapes of different varieties, as well as pears; in Quillota fragrant chirimoyas (custard apples) and perfectly ripe paltas (alligator pears); in Valdivia magnificent apples. In that favoured country everything flourishes; tobacco, the olive, the mulberry, the vine, all the cereals, maize, wheat, barley, oats, rye, etc., among textile plants flax, hemp, rami; as forage, clover and lucerne. With respect to cattle, we have seen a magnificent breeding establishment stocked with animals of different races both thoroughbred and crossbred. The Chilean saddle and light draught horses are well known in the provinces of Cuyo for their hardiness and elegance of form. There are many different breeds of sheep both of those bred for the fineness of their wool and those yielding longer and coarser wool.

The *Banker's Magazine* of the United States contains the following:

" 'Chile is one of the richest countries of South America', remarked a celebrated mining engineer who has passed the last ten years in that country. 'It is not only rich in mines,

but its agricultural resources are enormous. In the provinces of the South of Chile there are vast tracts of pasture-land for cattle and sheep, as good as those of Texas. In the central part of Chile are hundreds of thousands of acres of fertile land, capable of producing almost all the known products.

It is true that the Argentine Republic is the chief wheat-producing country in South America, but it cannot beat Chile in the quality of the cereal produced.' "

Señor Roberto Espinoza, in his book *Financial Questions*, affirms the following:

"Our country, in addition to its agricultural resources, has many others, beneath one of the mildest climates in the world. It possesses minerals that will not be used up for thousands of years; the motive power of its rivers will not be exhausted so long as the territory of Chile exists in its actual orographic and hydrographic form, and is capable of being converted into a source of incalculable wealth and of supporting a numerous population... its geographical situation will allow it to serve as the intermediary between the commerce of the western provinces of what will be the great and prosperous Argentine Republic, and the Pacific; and as intermediary between the commerce of Bolivia and the Pacific which is nearer than the Atlantic for the purpose of putting that Republic into communication with the rest of the world; and we think that Chilean Statesmen, on attempting to unite the Republic of Chile with Argentine and Bolivia by railways, have looked far and have foreseen in those railways, that it is to be hoped will multiply unceasingly, the immense future that awaits the transport services of our country; and that they have foreseen the increase of the national wealth and the development of our population that will arise from such works.

All that is wanted is the completion of the system of quays and docks capable of satisfying the necessities of such a commerce.

Our country, besides its agricultural and mineral resources, besides its commerce and its water-power, possesses

abundant fisheries in the south; and in various cities already, numerous industries imported from abroad, as the sugar refineries, cloth factories, hat factories, etc., that owe nothing to the national agriculture, provide occupation for thousands of individuals.

The agricultural industry, notwithstanding all that has been said to the contrary, has continued to prosper from 1878 up to the present time; the mining industry, our principal industry, has continued to afford the State a large proportion of its revenue; the manufacturing industries already possess important capital and the value of their production exceeds \$100,000,000 yearly; foreign trade has been increased fourfold since the same year, and the same may be said of the home trade that has perhaps increased more than fourfold; the transport services have grown in number and in importance; communication has been greatly facilitated by new channels and new methods introduced by the inventions that arrive from all countries; in the towns, building construction has improved and increased, and the paving of the streets tends to become every day more commodious; the practice of hygiene, although it yet leaves much to be desired, is making its way among the different classes of the population, beginning with the authorities that have done so little in the matter of the public health; savings, deposits in the banks, investments in the shares of industrial companies and in bonds, amount to more than \$1,000,000,000, public and private instruction is making way, though but slowly, and tends to reduce from day to day the number of the illiterate; the fine arts that in 1878 were here only just beginning to receive attention already produce meritorious works...

This is a brilliant but faithful picture that Señor Espinoza presents to us and it is owing to the good natural conditions of the country.

As is well known, the mineral production of Chile is enormous, including nitrate, iodine, copper, coal, silver, gold and also guano, according to official documents.

But that mineral production would be greater if we had in

Chile a competent Congress that knew how and wished to reform our very defective mining code; the mineral production in Chile is in a state of relative stagnation and its development is impeded by the defects of that Law.

With regard to the agricultural produce Señor Pavlovsky says as follows:

“We have not the exact data for estimating this value. Nevertheless we venture to make an approximate calculation.

350,000 tons. of wheat represent. . . . .	\$35,000,000
3,000,000 hectolitres of wine including superior and ordinary . . . . .	\$25,000,000
Admitting that the 820,000 hectares remaining produce at the rate of \$100 per hectare in vegetables, fruits, nuts, olives, pasture, etc., we shall have.	\$82,000,000
<hr/>	
Total. . . . .	\$142,000,000

We have then a production of \$142,000,000 instead of the \$33,000,000 that have been calculated for 1871: that is to say that in 37 years the agricultural produce has increased 330%.

It is evident that these calculations are approximate, but we are inclined to believe that in reality the annual production of agriculture and cattle and sheep farming is very superior to these figures.

From this we may infer, without risk of equivocation that the agriculture actually, although it figures less among the exports, occupies a more important place in the Chilean economy than before.”

The Superintendent of the Chilean custom-houses, in a recent publication states that:

“In 1898 the export trade represented a value of \$170,103,114 and in 1908 of \$319,149,072; the coasting trade amounted in 1898 to \$79,860,605 and in 1908 to \$258,194,492. Imports, exports and coasting trade together, amounted in all, in 1898, to value of \$353,923,846. and in 1908 to \$841,608,333.

This increase is owing to the importation of machinery for the industries, especially for that of nitrate; of implements, coal, and raw petroleum.

The following figures give an exact idea of the increase experienced by the articles mentioned, to which might be added others, like sheet iron, and many more.

Year	Coal	Machinery and implements
1898 . . . . .	\$13,303,028	\$3,379,078
1899 . . . . .	\$12,406,358	\$5,380,174
1900 . . . . .	\$13,524,840	\$4,137,588
1901 . . . . .	\$14,437,258	\$9,870,903
1902 . . . . .	\$15,281,037	\$15,247,725
1903 . . . . .	\$16,041,813	\$13,227,777
1904 . . . . .	\$16,641,625	\$21,266,156
1905 . . . . .	\$23,795,103	\$25,539,389
1906 . . . . .	\$20,396,480	\$40,126,349
1907 . . . . .	\$30,010,138	\$48,015,304
1908 . . . . .	\$32,140,140	\$53,254,831

The import and export trade in 1909 amounted to \$ 568,512,672 and the coasting trade to \$278,796,585.

In 1910 it continues to increase and it is well known that the surest indication of the evolution of a nation is the importance of its commerce.

It will be understood that a nation that increases so considerably its consumption of coal and its use of machinery is a nation that is developing and progressing.

A distinguished French banker who visited Chile recently, declared to a gentleman in Valparaiso that in his opinion this country was worthy of credit in Europe because its public debt was moderate and the value of the State railways alone was sufficient to cover it.

That Frenchman also knows and took into account that Chile has vast tracts of fiscal lands and nitrate fields of great value belonging to the State.



He added that they were not alarmed that Chile should contract loans, provided that they were for the execution of public works of a general interest.

A discussion having been provoked in the Senate on the economic situation of Chile, the Senator for O'Higgins said in the session of August 3rd 1910:

"But coming to statistics, I have had the curiosity to draw up a statement of the expenditure of the nation for periods of ten years, from the time when the Independence was firmly established up to the present, reducing it all to its equivalent in tenpenny pesos. In 1830 the estimate of the expenditure, reduced to this rate of exchange, amounted to \$7,200,000. In 1840 there was an increase of 90%, the total expenditure exceeding \$13,000,000. In the following decades the rate of increase was 60%, 90%, 120% and 60%.

Then there comes an interval on account of the war of the Pacific. The Government, as belligerent occupier, had dictatorial faculties for the collection and investment of supplies in the enemy's territory, for which reason there is no great difference between the estimate of the expenditure of 1880, that amounted to \$137,000,000 and that of 1890, that reached \$141,000,000; in 1900 we spent \$213,000,000 and in 1910, according to the exposition of the Chancellor of the Exchequer, the calculated expenditure reaches the enormous sum of \$380,000,000; but this sum only represents an increase of 78% on the budget of ten years ago.

In the budgets of late years are included more than \$130,000,000 of the ordinary revenue that have been invested in the construction of railways and in other public works, as the same Chancellor of the Exchequer has shown.

But where the prosperous economic situation through which we are passing and the flattering future that we may augur is observed, is on examining the state of the nitrate industry.

I have examined the statistics of the exportation of nitrate during the last ten years in order to find the percentage of the relative increase during the last period.

In 1900 the exportation amounted to 31,000,000 centals; in the present year, as the Chancellor of the Exchequer has shown, it will be 51,000,000 centals, and according to the calculations of those who understand the matter, this figure is very near the reality for in their opinion there can only be produced a diminution of at most 400,000 to 500,000 centals with regard to the data supplied by the Chancellor."

As to the probabilities that the world's demand and consumption of nitrate be maintained, Señor Alejandro Bertrand, in his book "*The nitrate crisis of 1910*" pronounces the following opinions:

"Indeed, calculating at 220,000,000 tons the amount of available nitrate that, according to the fiscal delegation of the industry, is contained in the nitrate lands already known, and at 800,000,000 tons the possible existence in unexplored districts, then according to the hypothesis already enunciated, the available nitrate would last up to 1965, and the amount in existence up to the year 2,070.

We certainly do not pretend that the lines of consumption, up to those dates, must of necessity be in strict accordance with other previsions; but we think that the deviations in that respect will not be sufficiently considerable to upset the conclusion to which we now arrive and that is:

There is no fear whatever that the demand for fertilizing nitrogen in the form of saltpetre may suffer diminution before our deposits be exhausted; on the contrary, it is most probable that it will continue to increase to more than 1,000,000 tons of nitrogen, that is 6 to 7 million tons of saltpetre, every year..."

The progress made in the cultivation of cereals, shown in this book, and in agriculture generally and the other industries, entitle one to see in the consumption of fertilizers the continuation of that progress, and to declare in the following quotation that:

"There will never be enough nitrogen to satisfy the wants of modern man who, if he wishes every day 'more light', with much greater reason wants also more bread, more

milk, more sugar, more meat, more fruit, more of all the agricultural productions the consumption of which responds to necessities felt always by perhaps the whole of humanity; the satisfaction of which, up to recent years the monopoly of a favoured few, tends every day to become more and more the common patrimony of all classes of society in civilized nations; productions in which nitrogen plays such an important part.”

In the session of August 4th the Senator for O’Higgins added:

“One of the most marked symptoms of a prosperous state, the degree of constant and progressive advancement of the economic situation of the country, is found in the statistics of the movement of trade and of the ordinary revenue of the nation. It is sufficient to read the Messages of the President of the Republic on the opening of Parliament to note that the revenue has been continually increasing to such an extent that in a period of six years it has been more than doubled. That revenue which, according to the Message of 1904 was \$105,000,000 has reached, according to the last Message, the sum of \$280,000,000. Let us discount whatever may correspond to the difference of exchange and it will still follow that the ordinary revenue has in this short space of time experienced an increase of more than 100%.”

That tenacious defender of the paper money, the Senator for Curicó, could not do otherwise than recognize such an evident fact, and in the session of August 11th he expressed himself as follows:

“The wealth of the country is manifested in all the branches of production, in mining, agriculture and manufactures; all prosper and every day inspire more confidence in the increase of that wealth. So that we all agree with the Honourable Senator for O’Higgins that the country, beneath whatever aspect it may be considered, is in a brilliant economic situation.

We also agree that the financial situation is detestable, and the contrast between the two is greater if we consider

the brilliant situation that the Senator for O'Higgins described in former sessions."

— IV —

It appears then, from all the statements and affirmations that we have quoted, that the country as a whole is in a very good industrial and commercial condition; but, as we have explained in other chapters, the country is losing capital, and a great part of private fortunes is dislocated, that is to say, has passed and is passing unjustly from the hands of those who have accumulated their savings by hard work into the hands of the more audacious that have created and maintain the plan of subsistence and of a gradual and systematic depreciation of the paper money of forced currency.

The paper money has been issued in Chile with the pretext of reducing the rate of interest. Meanwhile, the positive fact is that in August 1910 the interest on money on the basis of the paper money was not less than 9% while on the basis of gold, £ sterling, it is not difficult to effect transactions with good security at 5% or 6%, and in this form there is some capital invested in Chile but relatively very little.

But the foreign capital in Chile is exposed to constant hostility on the part of certain circles.

Señor Espinoza says:

"But, when has any effort been made to attract foreign capital to Chile? If any foreign enterprise in Chile wishes to join two places by a railroad, it will have to overcome a thousand difficulties to attain its object, if indeed its patience being exhausted, it does not abandon its purpose. If foreign capital wish to construct quays, its tenacity is first put to proof during long years of struggle. If, indeed, it be desired to undertake any work with foreign capital, the enterprisers must be prepared to persevere for years if they wish to attain their object..."

And another publication by the Press explains the exact situation in the following manner:

“In spite of that desire, every day complaints are heard, even from the protectionists themselves, about the want of capital, and vehement desires for the introduction of foreign capital into the country; they well understand that without capital there is no business, no movement, no progress whatever.

And there is precisely the absurdity of all these aspirations. They want foreign capital to come, but what does it find when it does come?

One of the principal industries of our country has been and will be for many years the exploitation of nitrate: and it is a fact that the greater part of the deposits is in the hands of foreigners, especially English and Germans. But for many years past a campaign has been carried on in Parliament and in the Press in favour of the nationalization of the nitrate industry; that the nitrate fields be reserved for national capital. There have been made some trials for nationalization, mostly with deplorable results, because it is not sufficient to organize nominally a few companies, to be able to declare that thereupon the national nitrate industry exists.

Therefore foreign capital should not come to be occupied in such an industry because that, according to our nationalists' way of thinking, is a spoliation of the wealth of Chile.

Of equal importance as regards amount, but of much greater importance on account of its extension, is the commercial industry, or Trade; there foreign capital finds excellent and remunerative investment; but the crude opinion that we have here of Trade is well known; the foreign merchants excite the distrust and irritation not only of the masses, but even of persons of high position, even of Members of Parliament. And the system of protectionism, what is it but open war against foreign capital that comes here in the form of goods imported from abroad? That capital then also should not come here to be employed in trade, for by that means we are defrauded and robbed.

Manufactures also open up a wide and rich field to capital but against the use of foreign capital there are the same

preventions as against its employment in commerce; and the special object of industrial protectionism or, to speak more correctly, the protectionism of manufactures, is the development of national industries and the employment of national labour. Therefore foreign capital must also be excluded from the manufacturing industries.

Agriculture generally affords no convenient employment for the said capital, because it is an industry that requires personal conditions: knowledge of the climate and of the soil, experience in the treatment of the workmen, and many other conditions that can only be found in the native, or in the foreigner resident for many years in the country.

So that foreign capital is therefore necessarily excluded from the agricultural industry.

The only occupation that is being left open to foreign capital is that of Public Works for which there is still offered the attraction of a guarantee of up to 5%; but the remembrance, still fresh in our minds, of the Syndicate of Public Works, proves that even in this there would be no hesitation in sacrificing foreign capital if only a few Chilean capitalists cared to exert themselves a little for that purpose.

Therefore, why should that capital come to our country if all doors are closed to it or if it is excluded from all parts?

It should not come to work directly, but only as a mere loan for the sole purpose of gaining an interest.

But the banking industry is no other than this; it takes up in Europe capital offered there at 2, 2½ or 3% and employs it in our country where the current rate of interest goes up to 10%, in order to gain the difference. But now the exclusion of the foreign banks and the nationalization of the banking industry is demanded.

There is, then, no means of conciliating the desire of attracting foreign capital to our country and these other hostile sentiments against that same capital."

There are certain investments of foreign capital in Chile, as for instance the electric tramways of Santiago and Valparaiso, that are greatly prejudiced not only by the reduction

of the fares, due to the depreciation of the paper money, but also to the permanent hostility of the municipal authorities of both cities. That proceeding and that constant hostility are unwise acts that lower the prestige of the country and render the creation of other enterprises with foreign capital a difficult matter, for those that already exist find themselves making little profit and, in addition, are continually harassed in various ways.

— V —

In this state of affairs the partisans of the paper money in Chile tenaciously pursue their end.

After putting into force the Law of 1909, against the opinion of the President of the Republic, and without any intention of fulfilling it, they have gone ahead with their system.

One deputy said in Parliament:

"As for the clause to which I refer, it is so much the more irritating because everyone knows that it would be easier for a camel to go through the eye of a needle than for the Conversion to be realized under the rule of the defective law in force."

And it may be asserted that these words interpret the opinion and the wishes of the majority of the Congress.

They know that they have issued paper money to excess, but not on that account do they neglect to insinuate that they would issue more whenever they believe that an opportune moment has arrived.

One of the Senators for Concepción, in the session of August 2nd, said as follows:

"Still less can an issue of paper money be thought of. Who would dare to-day to suggest a new issue of paper money? The banks' coffers are replete, and they have more than sufficient to attend to the satisfaction of their deposits, so that this reason could not be given for advising that measure that cannot be even insinuated *at the present moment*.

I wish to anticipate the Minister a little, and I ask; how is this deficit of \$60,000,000 perhaps of \$70,000,000 to be met? By means of loans? By raising the taxes? *By a new issue of paper money?* By the sale of national property?

The Minister has told us nothing about that. . . .”

But as they do not dare for the moment to issue openly more paper of forced currency, they continue their plan of gradually depreciating that which is already in circulation by depriving it of a fixed and stable value.

## — VI —

It is notorious that the strength of the Bank of England consists in its constant care to preserve and maintain the convertibility of its notes into gold. For that purpose they retain in their vaults enormous sums of gold in coin and in bullion.

The loss of interest represented by such colossal sums remaining idle, is more than compensated by the financial solidity that those reserves give to the banking institutions or to the Government that supports them; by the influence that they have on the preservation of international peace; by the advantages that they give to the nation in case of foreign wars seeing that they allow the acquisition of all kinds of supplies for the army and navy without loss of time and without sacrifices; by keeping off prolonged and profound monetary crises, in proportion to the amount of those reserves; and, in short, by the improbability of the issue of paper money in the face of any conflict whatever, issues that to the economic regime are calamities as disastrous as a war.

It is well known also that the Government of the United States constantly maintains in the treasury at least \$100,000,000 in gold for assuring the convertibility of its notes.

But in Chile it is affirmed that these are imported arguments that have no value and cannot be acclimatized in this country; and the partisans of the forced currency act



in accordance with their theory, and assert in their Press that "the economic history of all countries shows us that the reserves in metallic money have no influence whatever on the value of the notes in circulation...!"

As soon as the Law of August 1909 was promulgated, in which they unwillingly provided for a monthly accumulation of \$500,000 gold for the increase of the Conversion Fund, hardly was it promulgated, we repeat, when they began to intrigue for leaving that stipulation without effect.

In the mixed commission, composed of Senators and Deputies, that met on December 9th 1909 to study the budget of the national expenditure, it was put to vote whether the item of \$6,000,000 that the Law of August ordained should be devoted to increase the funds for the Conversion of the fiscal notes should be approved. That item was only approved by 7 votes to 6, that is to say by a bare majority, and *only 4 months after the promulgation of the Law by which it was established*. This clearly showed the danger that the Conversion Fund already ran.

In the session of the Senate on August 2nd 1910 one of the Senators for Concepción expressed more clearly their purpose in the following insinuation:

"It is the same with the item of \$6,000,000 gold that is consulted yearly in the budget of the Exchequer for the purpose of increasing the Conversion Fund. I think that it is not convenient to send to Europe this money that might be kept here and with which the exchange would be improved, and there would be at least \$10,000,000 annually to attend to the necessities to which I am referring."

And the Senator for Curicó, as was natural, seconded the motion in the following terms:

"1st, accepting the idea proposed yesterday by the Honourable Senator of suspending the remittances to Europe destined to the Conversion Fund. And adds: 'we should then have in currency \$9,000,000; to this the Government might add a large sum that may be obtained by realizing in Europe some \$30,000,000 in bonds of the Land Bank, that

are retained in the coffers of the Exchequer, where there are \$56,000,000,—\$22,000,000 destined for the protection of the internal debt and \$34,000,000 forming *a reserve fund that, if I am not mistaken has no essential object* even when it appears to me that it is destined to the strengthening of the Metallic Conversion.

Another Senator.—‘It is destined precisely to that object’ The Senator for Curicó.—‘Why could not \$34,000,000 in bonds be realized in Europe when, as it is known, that operation can be realized on favourable conditions?’ ”

And a Senator for Santiago adds, in the session of August 11th:

“But there is another method, that I must accept, because I have been proposing it year after year, and that is to suspend the monthly remittances to Europe. The Law of 1907 orders the remittance of \$500,000 gold monthly. The suspension of these remittances would produce in one year the sum of \$13,000,000 paper that would contribute to diminishing the deficit.”

The Senator for Concepción, in the session of August 11th, also supported the sale of the bonds, saying:

“It appears that the Honourable Senator proposed the sale of bonds, a measure that I agree with. It is to be hoped that the idea will be carried into effect, and also the bonds might be converted from paper into gold in order to sell them abroad.”

With these discussions in Parliament, and with the projects to which we have referred in another chapter, we see clearly the object pursued; not only to prevent the Conversion Fund from continuing to be formed, but also to diminish by means of the sale of the bonds the part that has already been accumulated, the produce of which is destined to the payment of the fiscal notes of forced currency.

There is no doubt that if they succeeded in this, they would continue to break up the part of the Conversion Fund already accumulated, to-day in power of the European bankers, so that when the time fixed for the payment of the

notes arrives there will be no money with which to pay them. It is very probable that they will succeed in their purpose, for that is the marked tendency of the Congress, and besides, the late lamented President Montt who was the one who strenuously defended that Conversion Fund, no longer exists.

On this question of reserving gold for assuring the conversion of the notes, Señor Espinoza is quite right when he says as follows:

“The bankers cannot resign themselves to contemplate tranquilly the large sums of gold in the coffers of the banks, and the same thing happens to many shareholders. They all think that the gold should not remain idle, as they say, to industry. Both forget that that gold fulfils an important function; that in spite of its apparent inactivity it is playing a very active part in industry; that it serves the purpose of giving value to the note; that it is destined to maintain confidence in whatever event that may happen to involve the credit of the bank; that it is intended for the cashing of the note whenever demanded; and for meeting the other obligations of the institution as debtor, whenever the public require payment in gold and not in notes.

If the reserve of metallic money be neglected, how will the notes be cashed by the bank of issue and how will the bank be able to return the deposits of the public if the latter demand gold?

*The owners of that gold are, it must be remembered, the holders of the notes, and the depositors.*

It may be that the holders of the notes, as well as the depositors, may not feel any necessity for withdrawing that gold and may leave it there for years; but this circumstance should only be considered as the result of the entire confidence of both that the bank will not dispose of that gold but will retain it in its coffers in order to have always at their disposition the necessary reserves.

But, in whatever moment of panic, caused by an international conflict or by a convulsion within the country; in

view of any danger of bankruptcy of the establishment that is debtor, or of other important banking institutions in relationship with it; in the event of any fraud great enough to compromise the bank's cash; the demand for gold in payment of the notes and in payment of deposits will be greater in proportion to the intensity of that fear.

In order to be prepared for all the economic disorders caused by the violent withdrawal and the consequent hoarding up of that gold, it is necessary to maintain a sufficient metallic reserve with which to meet the demand in those contingencies that, although tardy, are none the less likely to occur.

The cause of the profound monetary crisis that afflicted the United States of America and a great part of Europe in the year 1907 is to be found in the widely-diffused error that the gold in the bank's coffers should not remain idle: or in other words, in the slender proportions of the metallic reserves in comparison with their obligations.

The want of foresight of the bankers, the errors of economists and the prevalence of the false theories that are held on this matter, have caused to the world losses that might be estimated at many thousands of millions of pesos.

The purely material losses, without reckoning other derangements caused by these monetary crises that affect directly the other branches of social economy, are perhaps in the long run greatly in excess of the millions received by the bankers in the form of interest and dividends on the gold that they do not wish to see idle in their coffers.

## — VII —

In order to impress the public in favour of their ideas and purposes, the supporters of the forced currency proclaim the bankruptcy of the Exchequer, that is very far from being the case.

Relying on a defective exposition of the inexperienced

Chancellor of the Exchequer, they represent the State to be on the verge of bankruptcy.

One of the Senators for Concepción in the session of August 2nd declared as follows:

“But the Senate has heard the Honourable Minister in yesterday's session say what is the state of the Public Exchequer. The foreign debt amounts actually to £25,640,000 and the loans to be contracted, authorized by laws already passed, amount to £5,080,000 without counting the loan of £4,825,000 destined to the purchase of battle-ships.

When these loans have been contracted our foreign debt will amount to £35,545,000, and if to this be added the sum of £8,555,000 which is the extent of the responsibility of the State for the construction of the Transandine and Longitudinal railways we arrive at the conclusion that the State has a debt of £44,100,000 or \$900,000,000 of our money. If again to this be added the amount of the internal debt that amounts approximately to \$200,000,000 we shall have a debt of \$1,100,000,000 that demands to be served with at least \$60,000,000 yearly.

We have, then, a debt of \$1,100,000,000 that the Congress must take into consideration before authorizing new loans, if it does not wish to plunge the country, when it is least expected, into a great bankruptcy.

There is then no advantage in having resource to loans for meeting the deficit. We might resort to the increase of the taxes, but what tax can, I will not say be created, but even be increased at the present moment? The Law just promulgated, imposing stamp duties, establishes a sufficiently burdensome impost which it will not be possible to increase. Should we proceed to augment the duties on the exportation of nitrate that are already so great that they leave only a very small margin of profit to the exporter? Should we increase the import duties when we see that the people are groaning in misery on account of the high prices of articles of consumption, both of home products and of those imported from abroad? Should we inflict

further punishment on the middle classes who also suffer for the same reason in consequence of the waste and prodigality of the Government that have brought us to an exchange of 10d.? It seems to me that we cannot even attempt an increase on internal taxes, especially if we remember that for many years the import duties have been increased 60, 70, and up to 100% on account of the high premium to which gold has attained in the market.”

And the Senator for Curicó echoes these observations with the following words:

“From this clear and precise exposition results the fact, that will have been telegraphed all over the country, and that every Chilean will be at this moment lamenting, that the present year will end with a deficit of approximately \$60,000,000. Let the Chamber take notice that up to the present date the Revenue received during the year has exceeded the sum calculated by \$30,000,000. Had it not been for this greater income we should have the monstrous fact that the present year would close with a deficit of \$80,000,000. Fortunately the increase in the Revenue has diminished that excessive amount.”

Those statements were immediately rectified in the same Senate by the Senator for O’Higgins who expressed himself as follows:

“I have thought it convenient to bring these antecedents to the Honourable Chamber because we have to consider in this debate, by the side of the figures of our actual Revenue, those of our obligations, especially of our foreign engagements. It has been said here that these have increased enormously of late and that our debt has tripled itself. In reality it has not tripled nor even doubled itself.

It amounts actually to a little more than £25,000,000; but the loans in contemplation may bring it up very soon to £45,000,000 including in this figure the engagements for the construction of the Longitudinal and Transandine railways and other obligations of the State.

I do not know if I am mistaken in this figure; but I

conscientiously believe that I must submit these ideas to the consideration of my honourable colleagues in order that public opinion may not be agitated, and to prevent our foreign credit being weakened with the considerations of the most gloomy nature that have ever been put forward in this Chamber."

One of the newspapers also answers the tergiversations related, in the following words:

"The Chancellor of the Exchequer simply presents these data without any explanation whatever, with the result that those persons both within and without the Senate, who are little accustomed to think, have added together all those quantities, arriving at the conclusion that the Republic has a debt of \$1,100,000,000 needing for its service at least \$60,000,000 a year.

The Chancellor of the Exchequer ought to have said clearly that several of those engagements are spread over a period of many years. For instance the £7,000,000 for the Longitudinal railway will weigh upon the credit of the State at the end of the 5 years occupied in its construction, the stipulated guarantee being due little by little in proportion as the work progresses.

The same can be said of the works of the ports of Valparaiso and San Antonio, the construction of which will occupy seven years.

Well then, in seven years from now, as the ordinary amortization continues, some £3,000,000 will have been paid off. Besides, it must be remembered that the country will have continued to grow during that time, so that a foreign debt of £40,000,000 will not overwhelm the finances, and many of the works carried on with these loans will be productive.

According to the exposition of the Chancellor of the Exchequer the foreign debt on December 31st of this year will be £25,239,320 deducting the corresponding interest and amortization, and if the new loans authorized be con-

tracted the debt will amount by the end of the year to £30,319,300.

If Congress should pass this year the Bills for the renovation of the artillery and for the construction of the works of the ports of Valparaíso and San Antonio, our debt will be increased by £4,825,000 and will then amount to £35,144,300.

This is the real and effective maximum to which our foreign debt can arrive if all the projected loans be negotiated.

Now what is the equivalent of this sum of thirty-five million pounds sterling odd?—\$468,473,519 of 18d.

But let us follow out the reasoning of the Honourable Senator. To the amount of the loans must be added, in his opinion, the sum of £8,555,000 which represents the responsibility of the State for the construction of the Transandine and Longitudinal railways, and although he is not very sure of the propriety of adding that sum, it is decided to add those millions, arriving at the grand total of £44,100,000. We say that the Honourable Senator is not sure of the correctness of this calculation because he knows very well, and frankly declares that it is a question of a conditional guarantee of interest that will impose on the State a maximum outlay of 5% on the £8,555,000 *in case it should be necessary to make that guarantee effective.*

But this is not all. The Honourable Senator, without reflecting on the false reasoning of reducing the debt of gold to currency and of adding up capital that is only guaranteed and which will be invested over a more or less considerable number of years, adds to his inventory, without further examination, the amount of the internal debt that amounts to the sum of \$200,000,000. As \$150,000,000 of this debt corresponds to the paper money, the Honourable Senator ought to have remembered that a considerable part of this issue is safeguarded by the Conversion Fund that amounts to £6,444,000 in addition to more than \$35,000,000 in currency.

If we were to follow the Honourable Senator in his cal-



culations we should have to reduce to currency the fund in gold, and we should arrive at the conclusion that the issue of paper money is guaranteed with more than \$183,000,000 which sum would naturally have to be deducted from the total of the debt; but we do not reckon in this manner because it would be false and arbitrary.

We believe that by this exposition we have reduced to its true proportions the public debt that fantastic calculations in the Senate had brought up to \$1,100,000,000."

And in another newspaper the rectification was made in the following terms:

"Well then, in the following sessions of the Senate the Honourable Senator for Concepción, commenting on the ministerial exposition, arrives at the conclusion, with respect to the public debt, that, "we have then a debt of \$1,100,000,000 (quoted word for word)."

In order to obtain this alarming result the Honourable Senator merely added together the items of the foreign and of the internal debt mentioned by the Chancellor of the Exchequer, without reflection, without examining any of them, just as a calculating machine could have done; and then multiplied the pounds sterling of the debt in gold by their market value at the actual exchange of a little over 10d.

This calculation of the Senator contains serious errors and omissions that we shall point out:

1st.—Of the loan of £2,600,000 contracted in May, £1,100,000 will not be charged to the national Exchequer because it is ordained by the Law that authorized the loan, that the service of the interest and amortization of that part will correspond to the Municipality of Valparaiso, for which purpose special Revenues were created.

2nd.—The railway from Arica to La Paz, that has increased the foreign debt by about £3,500,000 will be opened next year; and as it will do a considerable amount of business it will produce sufficient for the service of the loans that were contracted for its construction.

3rd.—There will be no necessity to issue immediately

the whole of the £4,480,000 for naval acquisitions, but only by instalments during three years or more.

4th.—The £50,000 for the reconstruction of Valdivia will not be charged to the State but to the Revenue of the respective Municipality.

5th.—So also the Municipality of Santiago will attend to the service of the loan of £600,000 for the paving and the slaughter-house of that city.

6th.—The renovation of the artillery will be spread over a long period so that it is not necessary to issue immediately the loan of £500,000.

7th.—The construction of the ports of Valparaiso and San Antonio will be spread over some 7 years and the loan for £4,275,000 must be contracted in proportion as the work progresses and not immediately after the passing of the Law.

8th.—The guarantee on the £7,055,000 that the Longitudinal railway will cost will be made effective in proportion as the sections into which the work has been divided be finished, so that the State will respond for the 5% and amortization of the whole sum at the end of 5 years, and who knows now whether the State will have to pay the maximum of the guarantee of 5%, or less?

9th.—Without doubt the Transandine railway will be more or less productive so that the Exchequer will never have to pay the 5% on £1,500,000 as though it had contracted a loan for that amount. In the worst of cases it will pay a lower interest; sooner or later this railway will do good business.

10th.—The works of ports like Valparaiso and San Antonio are productive, so that they will produce sufficient, or more, for the service of the foreign debt that will have been contracted by instalments.

11th.—A very serious error in the Honourable Senator's calculation consists of taking the actual value of the pound sterling as a basis for putting the amount of the public debt at \$1,100,000,000.

Does not the exchange vary from day to day?

Will the Conversion never be realized in Chile?

12th.—And here comes the most important omission.

After maintaining that the foreign debt amounts to \$900,000,000, reducing the pounds sterling to tenpenny pesos, which is inadmissible, he adds the internal debt of \$200,000,000 paper.

He forgot that the \$150,000,000 of paper money are guaranteed with about \$36,000,000 paper, plus \$90,000,000 gold at 18d., and that if this gold be reduced to paper at the present exchange, as he did with respect to the foreign debt, it follows that there is a fund of more than \$180,000,000 with which to respond to the internal debt of \$200,000,000.

Is it not true that this omission is unpardonable? Re-make the calculation of the public debt with the data that we present and it will be seen that there is no reason to be alarmed at its growth, as has happened with those that put faith in the calculations of the Honourable Senator; especially when, during the 7 years that will be occupied in carrying out the plan of the projected public works, the ordinary amortization will have diminished the debt by more than £3,000,000.

Bear in mind also the particulars presented by the Senator for O'Higgins on the development of the exportation of nitrate, and it will be seen that there is no need to put obstacles in the way of the progress of the country, that is to a great extent connected with the construction of numerous public works."

We have, as is seen, an exposition of the State of the Public Exchequer, badly drawn up by the inexperienced Chancellor, that nevertheless did not fail to alarm the public and that was taken advantage of by the constant partisans of the paper money in order to persevere with their system.

The rectification in the Senate itself was not long in forthcoming, and was also clearly set forth in various publications of the Press that we have transcribed; but all this is not efficacious to protect the country against the disasters of the

paper money resolutely sustained by those who predominate in the Congress.

Señor Espinoza says:

“Chile has the most sensitive and delicate rate of international exchange registered by any country in the world. Everything in this unfortunate country is a cause of the fall of the exchange.

Does Parliament waste entire sessions in sterile discussions? The exchange falls for that reason... Do cabinet crises occur? Then the exchange falls as a consequence... Does the President of the Republic go for a summer holiday? Then that is a reason for the fall of exchange...

## — VIII —

And for all this there is no sign of a remedy other than might be applied by Public Opinion whenever it may awaken. Public Opinion in Chile is at present weak and uneducated and allows itself to be torpified by speeches in Parliament; and on the other hand the Press either does not know how or does not wish to teach it.

The public in reality is blind and does not take notice of what is happening.

Señor Espinoza explains the situation in the following words:

“If we take into account the number of agriculturalists (owners and tenants), that of the owners of mining property, that of the owners of banks (sole proprietors and shareholders) and that of contractors of transport services who charge for their services in gold, and then compare the total with the number of individuals who do the manual labour of agriculture and mining; with that of the workers in factories and workshops; with that of those employed in commerce, in the means of communication and in transport services; with that of civil servants and employees in private offices, we shall find in the first total merely some hundreds

of thousands and in the second the rest of the country, that is to say, the immense majority.

In spite of all, in the name of the interests of all the debtors, the Conversion has been for many years opposed, and this resistance continues and will continue to go on for some time.

Political economy in Chile yet hovers, as in so many other countries, over the chaos of metaphysics.

Apostles, masters, scholars and amateurs in economic questions all wander round about a phantasm.

So that many people are right who say that this country has a special political economy different from that of the rest of the world; because indeed the principles upheld here require a science different from the rest, a science of words, of sophisms and of absurdities.

For all this, it is necessary first of all to prepare the public conscience, to direct and to educate it; because at present it is disordered and unhealthy, confused by the sophisms that drive it from one side to the other, and by which it is solicited on all sides so that it is unable to perceive where its interest really lies."

## — IX —

And who will enlighten the public opinion?

The immense majority of the Congress are resolute supporters of the indefinite paper money.

The Press in general is neither sufficiently independent nor well-informed on these matters and many of the newspapers are party organs; others even refuse to lend their columns for the impartial treatment of what is here called the economic question.

The most learned and constant of the writers on economic history in Chile, Señor Roberto Espinoza, expresses his complaints of the Press in the following manner:

"Pursuing the object of diffusing and demonstrating the

ideas that inspired the work referred to, and of supplying its deficiencies, we applied successively to "*El Diario Ilustrado*" and to "*El Mercurio*", that could only cooperate on a very small scale with all that zeal that our interests demanded.

The "*Diario Ilustrado*", during a period of two months, published two of those articles, signed by *Hume*. Then the "*Mercurio*" during a period of four months published six of those articles, signed by *Simplísimo*.

The difficulties that the "*Mercurio*" of Santiago opposed to the continuation of those studies, decided us to give a series of free lectures in the State University, that were the complement of what had up to then been published.

These lectures were begun and were continued for some weeks; but the limited public that attended them began to grow tired and it was necessary to discontinue them.

That Press headed, on account of its economic resources, by the chief of our newspapers (the "*Mercurio*" of Santiago), believe that scientific questions should not be treated in the newspapers whose function, like that of the North American periodicals, should be merely informative.

If the scientific criterion be banished from the Press, what criterion will be adopted for resolving the political, economic and social questions that interest the country and that the Press discusses?"

And indeed Señor Espinoza has sufficient reason for these complaints, for "*El Mercurio*" in its leading article of January 25th 1910 says the following:

"The Honourable Deputies that patronize the project of the learned economist, Señor Suthercaux, and this renowned professor himself, must recognize the right of the great mass of their fellow-countrymen, those of us who know nothing of Economy and who only aspire to be allowed to work in peace, of uttering in a bitter cry, that is the echo of painful experience and the voice of a poor country devastated by economic laws... 'all this is doubtless very well contrived; but for Goodness' sake... leave us in peace... let us work... forget that there is such a thing as an econo-

mic question... a truce until 1915... then you will have time enough to renew the strife...'

And the Honourable Señor Subercaseaux and his colleagues may be sure that if they give the country that period of repose, that truce, that economic peace, they will have earned the gratitude of their fellow-countrymen more than they could do with the best project they can contrive."

The writer of this article is perfectly correct in affirming that he *knows nothing of Economy*, for he asks as a favour to be left in peace, that we may continue to sleep until 1915, until the accumulation of the small deposits of the people in the savings banks be sufficient to absorb all the bonds issued by the Caja Hipotecaria de Chile, payable of course in paper money of forced currency the value of which is diminished by all imaginable methods to the benefit of the owners of agricultural property who are the debtors of those bonds.

Also the newspaper "*El Ferrocarril*", that formerly defended the monetary reform, is also perturbed in its judgment, and in a leading article of June 10th expresses itself in the following manner:

"During the recent debates on this matter it has been proved over and over again that any attempt to produce *artificially* any modification whatever in the present state of the monetary regime, far from conducing to its destined object, would *produce the opposite effect* and would be the cause of derangements that would inflict disasters on public and private fortunes. So that the very nature of things and the state of the economic situation *created by a permanent crisis of more than 30 years*, after vain attempts to put an end to it, *recommnd the non-renewal* of the question and the definite acceptance of the solution that has fallen upon the matter...

For this reason they drag out again the eternal argument of the disorders caused by the fiduciary regimen, in consequence of the violent changes in the rise and fall of the rate of exchange, as if the adoption of *artificial measures* for

the prevention of those fluctuations were not a thousand times more prejudicial to the economic movement of the country."

"*El Ferrocarril*" begins by accepting as irreproachable the opinions that are expressed in the debates of the Congress, opinions that, with rare exceptions, we utterly reject.

On the other hand "*El Ferrocarril*" pretends that the supporters of the metallic currency wish to resort to artificial measures. The fact is just the opposite; they protest against artificial measures and demand the application of natural ones.

"*El Ferrocarril*" also counsels us to go on sleeping... but we do not accept that advice and we say with Señor Espinoza:

"With all this it is seen that although this should be an untiring campaign against the forced currency, silence has closed around it.

A marvellously effective formula has been discovered which embodies that policy of silence, of "*laissez-faire*", of "let it be",—a formula equivalent to a narcotic. It is expressed in the words "*monetary peace*"

We do not believe that "monetary peace" can exist in this country so long as the forced currency prevails, which is not a sign of peace but of rebellion against economic laws, a sign of continual spoliation, of disorders in trade, in incomes derived from investments, and in salaries, and a sign of incessant fluctuation in the monetary basis on which all contracts rest.

So long as there is not a currency of stable value capable of providing an invariable basis for transactions; so long as the "forced currency" is imposed or maintained by force, and legal obstacles are opposed to the currency that all nations accept for their mutual convenience, there is not, nor can there be, monetary peace; and to respect it would be a culpable tolerance if it were done merely for the sake of not opposing the interests of those circles that flourish under the protection of the paper money.

A circle of agriculturalists, miners, and bankers, in debt,



has worked unceasingly and will continue an unwearying campaign in favour of the forced currency; and they will form a permanent obstacle to the solution of this problem until they have succeeded in building up their broken-down situation.

Therefore to accept the "monetary peace" is to cooperate with that policy of extortion that has already lasted more than 30 years."

It would be too long a task to follow the observations of other newspapers; but it is right to record that three of them: "*El Diario Ilustrado*" of Santiago, "*El Día*" and "*El Mercurio*" of Valparaíso, have sensibly defended sound theories.

For the rest nothing but what is rational is demanded of the Press, as Señor Espinoza points out:

"What is to be observed in this situation is not whether the necessity exists for turning stones into gold as a means of salvation; what is to be considered is whether the law can, by any known methods, overcome the actual difficulties; whether the law can restore the former juridical order that it abolished; whether the relations created by the law, between the State and the public with respect to the paper money, can take another direction; whether the law can attack the real facts and not the mere fantasies on which was founded the Law that imposed on us the forced currency in 1898; whether, in short, after a complete study of the historical antecedents, the fractures of our situation can be mended."

These are the questions that annoy the principal Chilean newspapers. They demand to be left in peace until 1915 when it will then be too late.

What judgment!

The result of all this muddle is that the quantity of notes of forced currency in circulation has been inconsider-

ately increased; that the time fixed for their payment is illusory; that a considerable part of a Conversion Fund has been accumulated in gold and securities for the payment of the notes, but that this fund is in great danger of being broken up and applied to other purposes.

The fiscal paper money in Chile, as has been said, was originally issued to provide resources for carrying on the war with Peru but has afterwards been completely discredited by the acts of the Public Authorities.

Franklin, who counts for something in the world's history, said that issues of paper in ordinary circumstances involve the grave danger of cutting off a sure source of supplies in the case of the extraordinary circumstances of a foreign war or of internal calamity.

And the late lamented President Don Pedro Montt also said:

“Paper money should be reserved for the supreme moments of the Republic. Its maintenance in a time of peace deprives the country of immediate and perhaps sometimes the only resources at the moment when they may be most required.”

Recently the situation might have been regulated by effecting the Conversion even at 12d. “to save what remains” but first reforming the banking system.

But there is not the faintest possibility of that being realized, for the Law of Aug. 1909 does not really adopt any measure directed towards that object, with the exception of the precarious stipulation of adding a little to the Conversion Fund, a disposition that will certainly be soon annulled. No step whatever is taken towards the indispensable reform of the banking system. The only thing they seem to do is to threaten to dissipate the Conversion Fund.

The time fixed for the payment of the notes has been postponed *nominally* another 5 years, but the intrigues continue for the purpose of securing the non-fulfilment of that promise. Whatever international alarm, any whatever of the serious events of those that are never wanting in the life

of nations, will bring about a still lower fall in what is here called the exchange, that is to say the value of the inconvertible note of forced currency, which is to-day valued at only 10½d., and which, through any accident whatever, may go down to 5d. or less, *because they obstinately refuse to redeem it*. A pretext will not be wanting for decreeing another postponement of the time fixed for the Conversion, or some subterfuge will be invented.

At an opportune moment the argument of the low exchange, or that of the adverse balances of the *Balance of Trade* will always be ready, and will continue to effect the further depreciation of the value of the note. They said plainly enough in the Chamber of Deputies that it was to their interest to obtain for each sack of wheat the greatest possible quantity of notes.

Señor Espinoza explains his opinion in the following terms:

"We need to make a brief relation of the vicissitudes of the Bill that pursued the indefinite postponement of the paper money, that will serve to corroborate the influences that the purposes of the governing parties have on the market price of the note of forced currency, and the influences that the laws have upon that same market value in proportion as those purposes and those laws are directed towards facilitating or impeding its Conversion.

The very short history of the Bill presented to the Senate in June will serve to explain the reasons for the great vacillations of the exchange during the year 1908; how it was that after a fall so great that it threatened to go down to 5d. or 6d. it experienced a rise in a few months, in spite of the approbation by the Senate of the Bill alluded to, up to 12d. and 13d.; and in what manner the general lines followed by the exchange are subject to that logic to which we have made constant reference.

While the Bill for the indefinite postponement of the Conversion of the note of forced currency was being favourably discussed in the Senate, and was also coupled with

a grave measure that was banishing all hope of an approaching redemption as was that of disposing of the Conversion Funds amounting to more than \$80,000,000 gold at 18d., the President of the Republic was preparing in the Chamber of Deputies a resistance to that Bill capable of frustrating it.

In effect, in the first place the Bill would be strenuously opposed in that branch of the Congress, and all kinds of obstacles would be put in the way of its discussion until the closure of the period of ordinary sessions that begin on June 1st and end on September 1st of each year.

Then, as according to the Constitution only the President of the Republic may indicate to the Congress the affairs to be treated in the extraordinary sessions expressly convoked by the Head of the State, the Bill of the Senate would not be included in the edict and therefore the Chamber of Deputies, even though the majority might wish to do so, could not take it into consideration, and all the more because in March 1909 the general elections were to take place.

So it happened. The Bill referred to having passed to the Chamber of Deputies, this branch of the Congress could not dispatch it in the time that yet remained of the ordinary sessions.

When the Congress was summoned to extraordinary sessions the Bill in question was not included in the Message of Convocation.

The President of the Republic being consulted on the matter manifested explicitly his intention to fulfil the Law of Conversion then in force. It was understood that the inclusion of the Bill solicited, or its remittance to the Chamber of Deputies, would only be in obedience to a duty of courtesy and to the harmony that should reign between the Executive and the Congress.

Two things thus remained clearly established. In the first place the definite purpose of the Head of the State to effect the Conversion at the date appointed by the Law, and in the second place the impossibility of the actual Congress being able to convert the Bill to which we are alluding into

Law; both because the President of the Republic was disposed to put all kinds of obstacles in its way even to the point of vetoing it, and also because in March 1909 the Parliamentary general elections were to take place. The rate of exchange during the year 1908, on account of this series of opposing factors, with this succession and substitution of opposite purposes on the part of the law-givers, experienced such extraordinary fluctuations that the most learned advocates of the theory of the *Balance of Trade* are confounded."

Among the disturbing causes Espinoza adds:

"The Bill presented to the Senate in June 1908 for the indefinite postponement of the Conversion:—to that Bill, on its receiving the approval of the Senate, is added the clause that the State should dispose of the sum of \$80,000,000 deposited in Europe and the United States and accumulated for the purpose of redeeming the paper money."

And he affirms that:

"If that criterion cultivated by certain of the governing or legislative circles do not meet with sufficient resistance to counteract it, we shall possibly see the value of the note of forced currency at 3d. or 4d. and consequently our rate of exchange at that same figure."

The meritorious President Don Pedro Montt is dead and the partisans of the paper money in Congress have now nobody to stand up to them.

## — XI —

The partisans of the paper money that to-day predominate among the public authorities have appropriated the word "*artificial*", making use of it to combat the Conversion into gold of the fiscal note.

As we have seen, they put millions of notes of forced currency into circulation on any pretext, thus imposing a forced loan on the whole country. All this is for them very legitimate and very natural; but if it is proposed to accumulate funds and fix a date for the payment of the notes, that,

according to them, is an artificial operation that must of necessity produce bad results.

Thus they allege that the metallic conversion of 1895 was artificial because money was accumulated and with it the notes were paid.

If the exchange reckoned in notes rises for whatever motive or reason, it is, according to them, an artificial rise, a knavery; but if for equal reasons the exchange quoted in notes falls, *that* is a very natural thing; there is always ready the argument of the adverse balances of the *Balance of Trade* in order to explain the phenomenon. That of the balance of the Balance of Trade, as we shall see in the following and last chapter of this book, is a gigantic error.

With the depreciation of the paper money on account of the reasons insinuated, naturally the price of gold in paper has acquired a premium. Then the advocates of the paper money in Chile declare that premium on gold to be also *artificial*.

Nevertheless, without the Exchequer being in need of it, they issue millions of notes of forced currency and with them ordain the purchase, on account of the Exchequer and also without necessity, of bonds of the Caja Hipotecaria.

Naturally with these extemporary operations, the price of the bonds, quoted in paper, rises considerably in the market; but as soon as those purchases cease the price falls again. Those fluctuations of price are indeed *artificial*. Naturally when they wish to sell those bonds for millions, there will be another *artificial* alteration of the price, but in the opposite direction.

— XII —

In the meantime they do everything possible to break up and dissipate the Conversion Fund destined to the payment of the notes and they also strive to avoid fixing a date for their payment: the evident tendency is to increase the issue of the paper money, to have no fixed time for the payment of the notes and to have no money with which to pay

them. In that situation which it is possible they may succeed in bringing about, any internal conflict whatever, any international complication, may depreciate yet more and to a considerable extent the note of forced currency and cause a further fall in the exchange based upon that currency. Thus they attain their end; without dictating any Law of repudiation they obtain the constant and gradual depreciation of the notes.

If the Alsop question with the United States had been imprudently managed there might have arisen a very serious international conflict, and without any doubt the further depreciation of the paper money would have followed. Although this conflict has not occurred on this occasion, there will not be wanting a similar incident some day and the gradual depreciation of the note will be the consequence.

Thus the mortgages constituted on rural and urban property are enormously alleviated because the more the notes are depreciated the more productive in paper money are those properties.

Inversely, debentures, bonds and other instruments of credit that represent the amount of those mortgages are continually decreasing in value seeing that they are amortized with notes of continually lessening value.

So it is seen that what is being tranquilly and silently consummated is a gigantic spoliation.

### — XIII —

By that system, without dictating a Law of Repudiation, we are approaching the gradual repudiation of debt, the repudiation of the Exchequer note, by means of its continual and constant depreciation, as happened in Peru.

In this manner fortunes change hands, all within the limits of the law and no one is responsible but the *adverse balance* of the **Balance of Trade**.

This is the effect produced between individuals by the actual system of the paper money in Chile.

Its damaging effects on the nation as a whole are equally lamentable. It is well to relate here what happened in Peru, to see how repudiation was brought about there, and to look at ourselves in that mirror.

It happened this way: the Peruvian issues of paper money amounted before the fall of Lima to some 60,000,000 soles. Afterwards those issues were increased to more than 86,000,000 soles.

By that means the paper sol went down to 2d. The repudiation came as a surprise and in the following manner:

The necessities of the Government compelled the gradual diminution of the proportion of notes to be received in the fiscal offices and in the Custom-House in payment of duties, etc. At first the proportion was 50%; afterwards it was 25%, then 15%, then 10% and at last nothing; this being the final blow.

The exchange continued its downward march until it neared 1d.; when one morning, and without any warning of what was going to happen, the cooks returned home from the provision market with the news that nobody would sell them anything unless they paid for what they bought with silver money.

On the same day the bakers and other shopkeepers refused to sell their wares unless they received payment in coin.

For three days running there were tumults and disorders in the streets and then the repudiation was an accomplished fact without the previous resolution or participation of the Government.

Before these events there existed fortunately in Lima coinage in abundance because there, as in this country, transactions in any kind of money were legal, in paper or in silver, and the shopkeepers marked their commodities with two prices: as for example 20 soles silver or 550 soles paper, according to the exchange of the day.

Few credits remained pending; for a long time previous nobody had sold for credit and the outstanding accounts were easily liquidated in paper of such little value.



The capital of the different banks had been constituted in silver soles as follows:

El Nacional . . . . .	4,000,000
Banco del Peru . . . . .	2,000,000
Lima . . . . .	2,000,000
De la Providencia . . . .	2,000,000

Although the shares of these banks were at one time quoted at a heavy premium, their capital was totally lost and a large proportion of the deposits shared the same fate.

It was a complete ruin.

The directors presented no accounts nor gave any exposition to the public, but resigned their offices leaving the banks in the power of the liquidators. Everybody knew that the banks had broken and were also aware of the cause of their ruin.

By a decree of the Government of don Manuel Pardo compelling the banks to deposit or rather to buy Government bonds with their metallic money reserved in guarantee of their issue of notes, the Government absorbed all the good money of the banks. The only one that escaped was the Bank of London and Mexico which firmly refused to comply with the said decree; it suffered indeed for that reason a heavy hostile run on the part of the Government and of the public, that placed it in great difficulties. However, when the reaction came afterwards, it was considered the only bank worthy of confidence, and thus it came to pass that all the silver coinage that had been withdrawn, and much more, returned into its coffers.

When the repudiation took place this same bank suffered much from its depositors in paper who demanded payment at the rate of exchange that prevailed on the date of the deposit; and although the receipts stated "payable in the same paper money as received" the Bank was condemned by the Tribunals to pay according to the exchange at the date of the deposit, while at the same time the reserves of the

bank in paper for responding to these deposits were useless and lost.

As the other banks had broken, this sentence of the tribunals did not interest them.

As I have already said, long before the repudiation, much silver money was in circulation in Lima so that the scarcity of currency was not felt; afterwards bar silver was imported from Chile and coined according to the needs of trade.

The Government proposed to make the Conversion of the paper money, substituting for the debt of forced currency another internal debt that should gain an interest of 1% per annum.

In other words the internal debt of the paper money was to be transformed for the holders into another internal debt at a specified time and at an interest of 1% per annum.

The proportion between the two was fixed at 15 paper soles for 1 sol of the internal debt; that is to say each paper sol was exchanged for  $6\frac{2}{3}$  cents in titles of the aforesaid internal debt.

As this internal debt only gained 1% per annum and the current rate of interest was 8% per annum, it followed that those titles could only be negotiated at a considerable discount; seeing that all capital employed in commerce is appreciated, in the absence of other considerations, by the income that it produces. The value of a title of 100 soles at only 1% interest could thus be negotiated for only  $\frac{1}{8}$  of its nominal value in order for the capital invested to produce 8% per annum.

In other words each title of 100 soles at 1% could only be sold for  $12\frac{1}{2}$  soles gold.

This system of conversion reduced the effective value of the paper sol to a little more than  $\frac{8}{10}$  of a cent; less than 1 cent gold.

We know of no conversion more disastrous than this. This is what happened in Peru, and in Chile, through the acts of our legislators, we are on the road to reproduce the same solution.

That happened in Peru on account of the absolute want of fiscal resources; in Chile we are travelling the same road, but the shame will be much greater here, for the repudiation of the note is being brought to pass in a country favoured with great fiscal resources.

A Law of Repudiation will not be openly dictated, but repudiation will be brought about by the gradual depreciation of the paper money by means of the unwise acts of the public authorities.

And that part of the Press that lays claim to be serious supports them in that attitude. That important newspaper "*El Ferrocarril*," in a leading article on June 10th 1909 makes the following statement:

"The question of the metallic conversion, in whatever disguise it may be presented, is already dead and buried."

#### — XIV —

The partisans of the paper money all powerful in the Congress, the banks badly organized without anyone compelling them to reorganization, the Press in general of poor judgment and badly directed in whatever refers to the questions of which we are treating, and Public Opinion dozing...

All this is disastrous.

Capital that is formed in the country in relative abundance being constantly driven out on account of the continual depreciation of the currency; a high rate of interest by reason of the prevailing distrust; the extraordinary resource of the paper money ruined and destroyed by its own discredit on account of the numerous promises of redemption not having been fulfilled: all the instruments of credit that are based on the paper money enormously depreciated in their equivalent in gold; the banking system in a bad state for want of the necessary reforms; the national banks incapable, in consequence of their unsound constitution, of lending any aid whatever to the State in a emergency, every

door is closed against the obtainment within the country of resources in the event of any grave national conflict.

It is well known that in time of need it is useless to solicit funds from abroad except on very onerous conditions.

This is the situation in which the National Congress has placed the country.

We are speaking of a permanent crisis that has lasted for more than 30 years.

Yes, we are undergoing a great crisis; but this crisis is not to be found in the country itself, nor in its trade, nor in its industries.

This crisis is discovered... in the criterion of our legislators!

As for the rest, the actual Congress, although it contains a few distinguished, patriotic and learned members, does not fairly represent the tendencies nor the desires nor the opinion of the nation as a whole. Its election was thoroughly vitiated.

The commissioners appointed to receive the votes are chosen from the electoral registers, that is to say from forged and adulterated lists of electors on which figure as active citizens numerous individuals already dead, as well as fictitious names. Those commissioners as a general rule act with great partiality, accepting or altering the votes to their own liking; and also on drawing up the acts they adjust the facts and the number of votes in the form most favourable to their interests.

Besides this, as the qualification of the legality of the election is resolved by the Chamber itself to which the candidate aspires, that corporation either admits or rejects the presumptive candidate according as he finds favour or not with the majority.

In this manner it follows that the Congress is elected in accordance with the desires of those circles that previously draw up the electoral registers to their liking and form commissions composed of their adherents to receive the votes; but it does not legitimately represent the public opinion of the country.

— XV —

To sum up, and even at the risk of being accused of making useless repetitions, we believe that we have succeeded in proving clearly in this chapter, that in spite of the entirely favourable natural and economic conditions of the country for maintaining firmly a gold standard, the issue of paper money and its gradual depreciation have been, especially during the second period, undoubtedly imposed on the country by an interested fraction of the community for its own convenience.

It also appears evident that the apparent apathy manifested by that part of the nation that unfortunately has to suffer the principal loss may be attributed to tergiversations of the matter by certain parties interested in obfuscating the public, the effect of which up to the present it has not been possible to counteract, in spite of the efforts of the meritorious President Don Pedro Montt, and of a few writers who have expounded the truth.

It is not easy to foretell what will happen in the future, but if in monetary matters the fate of Chile prove equal to that of Peru, a tremendous responsibility will fall on the supporters of the paper money; and the nation will see when it is too late, the catastrophe to which it has been driven in spite of the sincere efforts of a few who, like Señor Roberto Espinoza, whom we have frequently quoted, have given serious and opportune warning of the dangers that threaten the country.

## Chapter Twelfth

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### The Balance of Trade, the Economic Balance and the Transference of Capital.

#### — I —

Although Leroy Beaulieu and other notable economists treat in a masterly manner the much debated question of the Balance of Trade and of the Economic Balance we may be allowed, at the risk of being tedious, to add some observations, in view of the special situation in which it has been desired to place Chile in this respect; and with the object of dissipating the absurd theories that the partisans of the paper money in this country build up on the phenomenon of the *Balance of Trade* which they interpret to suit their own ends.

In order to make the thing more clear we shall refer to what has passed and is passing in other countries, with the object of comparing those events with what has happened in Chile.

The majority of the most influential men in Chile are decided partisans of the paper money but they are not willing

to admit it; but there is another group of persons who would like to see the restoration of the gold money of fixed value, but whose ideas are in a state of great confusion, and who hope that the favourable balances of the fantastic *Balance of Trade* may remedy the situation.

Nevertheless the opinion of the few people really versed in these matters is neither listened to nor appreciated; they are charged with being interested, with being speculators or visionaries.

It is repeated mechanically, without knowing why: "let us import less, let us export more and the foreigner will be obliged to pay us the difference in gold. Thus the exchange will rise and the Conversion will come about spontaneously."

Those who speak in that manner do not realize the absurdity of their theories, as we shall afterwards demonstrate.

The theory of the Balance of Trade is founded on this hypothesis: one country sells goods to another; the latter pays in money; the country that sells absorbs the money of the purchaser; the former replenishes its treasury and the latter depletes its own; the first enriches itself at the expense of the second.

"Even to-day statesmen, ministers, senators, deputies, journalists, manufacturers, traders, ambassadors, consuls, professors, and following in their wake "the man in the street" solemnly declare that the *Balance of Trade* is favourable when, in a country, the value of the exports is greater than that of the imports.

These contemporaries of Colbert, although they live in the 20th century, deduct the value of the exports from that of the imports and set down the difference under the heading: 'deficit' (Ives Guyot)"

All this is merely false reasoning: a crass error. In the Economic Balance of every nation the excess of the value of imports of goods should be set down to its credit as well as the excess of the importation of the precious metals, of securities and of instruments of credit.

It is impossible to make an absolute assertion, embracing all the nations of the earth, that the different countries must, in order to progress, export goods and products of a greater value than those they import; or, vice-versa, import more than they export.

Everything depends on the time, and on the circumstances of each country.

The partisans of the paper money in Chile affirm that the issue of fiscal notes of forced currency here arises from the poverty of the country, and that until it become richer that regime cannot be abolished nor can the inconvertible notes be withdrawn from circulation.

Is Chile poorer to-day than in 1850, 1870 or 1890? On this point the learned Chilean economist Señor Zorobabel Rodríguez also observes:

“The Trade Statistics reveal that Chile, with regard to the development of her international exchange of products, has no reason to envy any other nation in the world, for it would be difficult to find another whose mercantile traffic has steadily increased, like that of this Republic, from fourteen and a half millions to more than a hundred and forty millions of pesos.

The total commercial activity represented by the sum of imports and exports is the true barometer in which to read the signs of public and private wealth, of the degree of well-being attained by the inhabitants of the country, and of the progress of its industries.”

Since those observations of Señor Rodríguez, the public wealth has increased considerably in Chile, to such an extent that in 1909 the interchange of products with foreign nations exceeded 568 millions of pesos of 18d., and this phenomenon continues to increase in proportion from year to year.

Nevertheless, the partisans of the paper money in Chile continue to maintain that we cannot get rid of that plague on account of the poverty of the country.

The problem of the economic balance of nations is an arduous one, and it would be doubtless a great triumph of



statistics if they could estimate the sum total of all the values of a country, and could thereafter continue to appraise its successive variations.

These variations are of three kinds:

1st.—From one year to another every country observes that within its territory a certain amount of estate is created or perishes.

2nd.—The estate or property already existing fluctuates in value owing to a thousand different causes; and

3rd.—Finally, certain values are imported from abroad, and inversely, others leave the country.

Without much investigation it is evident, even to the most obdurate, that with respect to the first two of these categories Chile has gained enormously during the last half century. To attempt to prove this would be superfluous.

The third point remains: the famous and much-handled **Balance of Trade.**

## — II —

First let us consider a very common error.

Among the maxims to be established on this debated question is this: that the commerce of a country is not one single operation, but consists of innumerable transactions between individuals, transactions that are managed according to the judgment of each one with regard to his own private convenience, and without taking into account the advantage of the nation as a whole. The periodical liquidation of all these individual transactions, many of which are based on opposite tendencies, determine the international balances.

There is a tendency in this country to personify all this as if it were one single transaction; to speak of the imports and exports of the country as a whole, as if all the inhabitants acted with one mind, when, in reality, we wish to refer to the operations of some few individuals residing in Chile. As a figure of speech the country is erroneously presented to the imagination of the public, for the effects of international

trade, as a community with only one mind, one common interest, and with one single object, conceding credits and recovering debts by virtue of definite purposes, and capable of deciding on determined occasions that gold money and not goods shall be admitted in payment of the total difference. All this is a mistake.

The many and varied commercial operations of so extensive a country as Chile can never be movements agreed upon and calculated as a whole, as might be believed from the reference to them that is generally made. They are the result of individual efforts entirely independent of each other in their origin, and frequently in keen competition with each other, that the small group of men known as financiers can neither resist nor direct, but by which they frequently profit. In the general trade of a country there is no other agreement than the special convenience of each individual. The minister for foreign affairs may act in the name of the country as a whole. The obligations that he may contract, the protocols and the treaties that he may sign are binding on the country and on all and each of his fellow-countrymen. But the international commerce is an entirely different matter and nobody can bind or compromise all the citizens, all the merchants and all the individuals as a body. Everybody undertakes his commercial operations with complete independence and the failure of one does not necessarily compromise the credit of another.

For example the payment of the war indemnity by China to Japan, and the purchase of the Alaska railway from Russia by the United States, were financial operations between nations; but the international trade is not practised between nations, but between individuals, whatever their nationality or place of residence.

### — III —

In the matter of the comparative values of goods and products imported and exported there cannot be nor should there be any fixed rule.

M. Leroy Beaulieu says:

“Different cases of the excess of imports over exports or vice-versa, and their significance:

“Thus it is understood that most of the older countries, well advanced in civilization, and possessing great wealth, may have constantly, without inconvenience, an amount of imports greatly in excess of their exports. This has been frequently seen in England and France; when that is not so in one of those two countries then there is something abnormal; for example, during or after a war, especially if the result is adverse, large sums have to be paid abroad. In this case the imports, even of the richest countries, sometimes cease to exceed the exports, and for the time being the latter exceed the former. Thus during the wars of the revolution, Great Britain paid abroad, up to the end of the year 1796, it is asserted, the enormous sum, for those times, of £44,800,000 that is 1,120 millions of francs; and nevertheless up to the end of 1797 less than £1,000,000 in gold went out of England. Those sums were paid with the excess of exports over imports. This excess of exports of Great Britain amounted between 1793 and 1801 to the sum of £46,900,000 (1,180 millions of francs more or less), figures unprecedented in that country. In the same way when France had to pay the five milliards to Germany after the peace of 1871, although the greater part of that sum was made up by the sale of titles of credit, its exports for some years exceeded its imports; which was contrary to the usual state of things; in 1870 the excess of imports over exports was 65,300,000 francs and in 1871, 694,000,000.

Well then, in 1872 there was an excess of 191,300,000 francs in the exports and in 1873 a further excess of the latter amounting to 326,700,000 francs.

Afterwards the excess corresponded once more to the imports.

Germany, on the contrary, that had to receive enormous sums from France, had for that reason a colossal excess of imports over exports. That excess of German imports, accord-

ing to Soetber was, in 1873, 878,000,000 of marks or about 1,100,000,000 francs."

Don Zorobabel Rodriguez, in his *Studies on Economics*, treating of the same matter, expresses similar opinions and adds: "In order to give greater authority to these observations let us hear what the masters of the science of statistics have to say."

Thereupon he quotes the observations of Bastiat, J. B. Say, M. Block, J. Garnier who are all of the same mind, as well as Necker.

Two great nations in the front rank of the world's civilization and progress, Great Britain and the United States, have opposite balances in their Balance of Trade. Great Britain imports much more than it exports, the United States on the other hand export much more than they import, and nevertheless both nations make solid progress and increase their wealth in a marked degree.

Let us explain this phenomenon, that suits the case exactly, because it is a question of two countries possessing a gold standard, and that serve as examples for comparing with the situation of Chile.

No connection between the ancient nations and Great Britain could have foretold the industrial and commercial preeminence that that country afterwards acquired.

The Roman occupation increased somewhat the mineral products, but the breeding of cattle and sheep continued for a long time to occupy the majority of the inhabitants.

So insignificant was the amount of the commercial operations of that time in England that no transaction of the value of more than 20d. could be effected unless in the presence of a magistrate or two witnesses.

Whereas in the Mediterranean an active trade was carried on, merchants only went occasionally to England to buy tin, lead, leather and wool.

The first attempts at an international commerce were only initiated in England in the 9th century, shortly after the colonization by the Danes. Afterwards Jewish and Lombardy immigrants fomented the foreign trade.

The navigators from Lisbon, from Genoa and from Venice preceded by many years, in the 15th century, the English sailors in their mercantile expeditions.

In the time of Henry VIII, who died in 1546, the English merchantmen dared to venture only as far as Malaga in the south of Spain.

During the middle ages and up to the latter end of the 16th century, Flanders was the principal manufacturing country in Europe; but towards the end of that century the Spanish troops that invaded the Low Countries changed the situation of affairs; the Flemish factories were mostly destroyed and many of the manufacturers of that nationality emigrated to England and there vigorously fomented the industries.

A little later the decadence of the Dutch mercantile marine contributed to the development of the English shipping trade.

Up to that time, more or less, England had imported a certain amount of cloth from Spain, but now this trade ceased on account of the development of the English factories.

These factories were fomented not only by the Flemish immigrants but also by the Huguenots that, fleeing from the continent of Europe, took refuge in England.

During the middle ages the industrial development of England was very inferior to that of France, Germany, Italy, Spain and the Low Countries, but towards the middle of the 17th century this state of things began to change.

In the centuries that followed the discovery of America the situation of Great Britain, compared with the countries of the continent, especially with Germany and Italy, was very favourable and contributed to the progress and development of that country; no enemy invaded its territory and, owing to the circumstance of its being an island, its military expenditure was moderate. It went on progressing and developing while the nations of the continent were embroiled in perpetual war. The Thirty Years War alone from 1619 to 1648, and The Seven Years War that ended 1763, ruined the

nations of the continent and favoured the progress of Great Britain that was to a great extent free from those calamities.

Apart from this, about the year 1637 coal mining in England began to occupy an important position.

In 1753 the means of communication in England were so defective that it was necessary to transport on horseback such articles as clay, wool, wheat and bales of goods. By the inventions of Watt and Boulton in 1765 and 1774, steam was applied to the machinery for working the coal mines, and in 1785 steam engines began to be used in the factories. In 1756 the production of iron increased and became considerably cheaper on account of the low price of coal, and in 1788 that production of iron had reached a very considerable figure.

Up to that time England had bought from Sweden and Russia the iron it needed and was not able to produce. So late as 1790 England bought of Sweden iron to the value of £1,500,000.

In 1770 and 1785 new and important mechanical inventions contributed to the development of the manufacturing industries of Great Britain.

In 1816 the British Parliament established a gold standard of money, and in 1821 was restored the convertibility of the Bank of England's notes into that gold money. That had very favourable consequences.

With all those advantages, inventions and industrial applications, Great Britain grew rich and gained more than half a century on the other nations in its march of prosperity.

In 1830, the era of the steam railways was initiated with the construction of the Liverpool and Manchester line.

The transatlantic steamships that were initiated in 1838; the great postal reform of 1840 that reduced the transmission of correspondence to the uniform rate of 1d., and the electric telegraph that began to work in 1846, were new elements of progress and wealth for Great Britain.

To crown all this, about the middle of the 19th century Great Britain adopted the system of Free Trade in its inter-

national commerce, and this brought new and enormous advantages.

With all this, Great Britain gained the lead considerably on other nations.

According to the eminent statistician, Mr. Giffin, the capital accumulated in Great Britain, estimated in millions of pounds sterling, has been as follows, in the years indicated:

1812.. . . . .	£2,700 millions
1822. . . . .	£2,500     ,,
1833.. . . . .	£3,800     ,,
1845.. . . . .	£4,000     ,,
1865.. . . . .	£6,000     ,,
1875.. . . . .	£8,500     ,,
1889.. . . . .	£10,000    ,,
1903.. . . . .	£15,000    ,,

The same eminent financier estimated the total income of the population of the United Kingdom at 1,750 millions of pounds sterling in the year 1903; this proves the prodigious manner in which capital has gone on increasing in Great Britain.

According to Mulhall, in 1893 there existed in the United Kingdom 24,000 persons with fortunes of more than £100,000.

While Great Britain was a relatively poor country, and afterwards when it went on investing considerable capital in other countries, its exports were always greater than its imports, as may be seen by the following statement taken from Mulhall's Dictionary of Statistics:

<u>Year</u>	<u>Imports</u>	<u>Exports</u>
1701 ... ..	£5,900,000	£6,900,000
1712 ... ..	£5,800,000	£6,900,000
1726 ... ..	£6,700,000	£7,700,000
1736 ... ..	£7,300,000	£9,700,000

Year	Imports	Exports
1750 ... ..	£7,800,000	£12,700,000
1760 ... ..	£10,700,000	£15,800,000
1770 ... ..	£13,400,000	£16,000,000
1780 ... ..	£10,800,000	£12,600,000
1790 .. ...	£19,100,000	£20,100,000
1800 ... ..	£24,100,000	£43,200,000
1810 ... ..	£30,200,000	£58,800,000
1820 ... ..	£29,700,000	£44,200,000
1830 ... ..	£42,300,000	£45,800,000
1840 ... ..	£51,600,000	£62,000,000

During the first half of the 19th century English capitalists invested enormous sums in almost all the countries of the world, capital that they sent in the form of goods and products, and that accounts largely for the apparent excess of their exports at that time.

Giffin says that in 1873 the investments that the English were making abroad amounted to between 50 and 60 million pounds sterling yearly.

That investment of English capital abroad still continues under various forms. According to the well-known English review, "*The Statist*", of June 19th 1909, English capital invested in different forms abroad amounted then to 2693 millions of pounds sterling. Reckoning the interest at only 4% England would have to receive under that heading a yearly income of more than 107 millions of pounds sterling.

It is calculated also that the whole world has to pay to Great Britain some 70 millions of pounds sterling annually for freight and fares that correspond to their mercantile navy for services lent to other nations.

If to this be added the profits and savings that British subjects accumulate all over the world and constantly remit to their native land, it will be clearly understood why, during the last half-century Great Britain's imports of goods have always been in excess of the exports.



In effect, the following statement shows the figures for the years indicated (excluding treasure) in millions of pounds sterling:

Year	Imports	Exports
1850.. ... ..	£95,250	£82,500
1860.. ... ..	£210,500	£164,500
1870.. ... ..	£303,250	£244,000
1880.. ... ..	£411,250	£286,400
1890.. ... ..	£420,700	£328,250
1900.. ... ..	£523,800	£354,300
1905.. ... ..	£565,000	£407,600
1906.. ... ..	£607,900	£460,700
1907.. ... ..	£645,800	£618,000
1908.. ... ..	£593,000	£456,700
1909.. ... ..	£624,700	£469,750

Substantially the imports of Great Britain may be divided into two classes;

1st.—Those received in payment of debts; and

2nd.—Those sent in payment of goods and products exported. With this we have explained why, and on account of its great wealth, Great Britain receives imports of infinitely greater value than its exports, and that country grows richer every day.

It is known that from India alone Great Britain has to receive under that heading more than £16,000,000 annually.

Thus is explained the habitual co-existence in certain countries of three results that the believers in the theory, of the Balance of Trade would believe incompatible: 1st.—The greater value of the imports over the exports; 2nd.—a greater quantity of gold imported than exported; 3rd.—increase and not diminution of the national capital. All this can and must go on side by side. Far from there being any contradiction or paradox, we must notice there the normal conditions of economics and of a healthy condition of trade among intelligent peoples that are industrious and thrifty.

We may be allowed now to give an explanation of the actual balances in favour of the United States in its international trade, shown by the figures of the Trade Statistics.

To begin with, between 1803 and 1867 the continental part of the territory of the United States was increased by more than 2,800,000 square miles, and naturally its field of production increased enormously.

Then for the exploitation of that enormous territory, agricultural machinery was greatly improved, and already in 1866 there were in use 250,000 reaping machines, every one of which could cut up to ten acres of wheat in a working day.

In the year 1900 it was estimated that the agricultural machinery of the United States represented already a capital of 761 million dollars. It will be understood in what proportion the agricultural production of that vast territory would be increased.

The American nation consists of a Federation of more than 40 States, many of them of great importance, and there exists absolute free trade among them all, there being no custom-houses on the borders between any of the States.

The territory of the United States is the largest tract of land in the civilized world that is not saddled with custom-houses nor other obstacles, nor suffers from national rivalry; and its population possesses, on account of its great wealth, a power of consumption greater than that of any other nation.

By reason of the extent and facility of transport from one station to another it was calculated that in 1907 the internal trade of the United States amounted to 28,000 millions of dollars and that this enormous trade was equivalent to 24 times the value of the foreign trade of the United States.

All this signifies an enormous development that has been largely fomented by the facilities of internal navigation

on the great rivers, and on the navigable canals that have been constructed, as also by the immense extension of railroads that they have taken great pains to build.

With all these advantages the development of the factories in the United States has been very considerable. Of the six articles that provide the principal raw material for the factories—coal, iron, copper, timber, cotton and wool—United States are the greatest producers of the world, with the exception of wool, and therefore they are admirably prepared for manufacturing a great number of products.

If to this be added the fact that the United States have organized an excellent consular service that in frequent and numerous reports from all the corners of the world keep that country advised of all the financial, commercial, and industrial events of importance, nobody will wonder at its development.

The following statement shows the course of development of the international trade of the United States from the beginning of the last century.

Year	Imports	Exports
1800	49 millions of dollars	37 millions of dollars
1810	53     "     "     "	32     "     "     "
1820	70     "     "     "	56     "     "     "
1830	78     "     "     "	65     "     "     "
1840	108     "     "     "	99     "     "     "
1850	183     "     "     "	175     "     "     "
1860	279     "     "     "	278     "     "     "
1870	489     "     "     "	465     "     "     "
1875	533     "     "     "	513     "     "     "

Up to the year 1875, as is seen, the imports were always in excess of the exports, but from 1876 the balance has been in favour of the United States, for since then the exports have been greater than the imports.

The figures are as follows:

Year	Imports	Exports
1876	420 millions of dollars	594 millions of dollars
1880	668 " " "	835 " " "
1885	577 " " "	742 " " "
1890	789 " " "	857 " " "
1895	732 " " "	807 " " "
1900	850 " " "	1394 " " "
1905	1117 " " "	1518 " " "
1906	1226 " " "	1744 " " "
1907	1434 " " "	1881 " " "
1908	1194 " " "	1860 " " "

A curious coincidence... from the same year 1876, the imports in France have exceeded the exports, that is to say the opposite of what happens in the United States.

During the first three quarters of the last century European capitalists constantly sent continually increasing capital for its profitable investment in the United States, to such an extent that in 1894 it was estimated that there existed in that country the gigantic sum of 2,400 millions of dollars of European capital invested in that form, all of which had been sent there principally in the form of products and goods.

As the result of the development of the United States and of the entrance of capital in the form of goods, the American nation has enriched itself prodigiously, to such an extent that its wealth and the capital accumulated in its territory have been represented in the periods indicated by the following official figures:

Year	Amount	
• 1840... ..	3,764	millions of dollars
1850... ..	7,136	" " "
1860... ..	16,159	" " "
1870... ..	30,069	" " "
1880... ..	43,642	" " "
1890... ..	62,610	" " "
1900... ..	88,517	" " "
1909... ..	107,104	" " "

The debt of the Americans to the Europeans, arising from capital obtained for the development of their country, has been represented to a great extent by securities, shares, bonds and other titles.

The development and greater production of the United States since 1876, as has been said, already began that year to leave a balance in favour of their exports, and they have been able to recuperate and to repurchase in many cases their securities that had been transferred to Europe.

In 1877 it was already a matter of public knowledge in England that the American capitalists were buying back their securities. It is known that a great part of what the Americans have to pay every year is not remitted to Europe but is reinvested in the United States.

The excess of the American exports naturally cannot be all employed in the amortization of their debts, because they have to pay the interest on the capital that still remains invested in the United States; the heavy expenditure of the American tourists in Europe; the freights and fares payable to British shipping for traffic with America, and other expenses of different kinds; but in spite of all this there has remained a large surplus.

In 1898 the Americans repurchased an enormous quantity of bonds and shares that were in the hands of Europeans.

And not only that, but soon afterwards they began to invest in Europe a part of their surplus capital. In August 1900 the New York bankers took \$28,000,000 of the loan then issued by the British Government, in 1901 they took another \$100,000,000 and in 1902 \$80,000,000 more. In 1900 they also took \$20,000,000 of the German loan and another \$10,000,000 of the loans of different continental cities.

All these values proceeded from capital transferred to Europe in the form of products and merchandise.

The inhabitants of the United States have solicited considerable loans from European capitalists on a constantly increasing scale for more than a century, with the object of

developing their industries; and they still continue to solicit them.

In normal circumstances it is profitable to import and profitable to export. The country that is debtor receives the capital lent to it in the form of merchandise, and the country that is creditor usually receives also in the form of merchandise and products the interest and amortization of the said capital.

But it would appear nevertheless that the American nation having grown rich, a counter current should begin to take place.

The balance in favour of the value of their exports would mean that after covering their imports they remit values for the payment of the interest, dividends, and other profits that correspond to their foreign creditors, and for the payment of their tourist expenses, and still they have money left over to invest abroad and for the purpose of recuperating their bonds, shares and other securities that have been for many years accumulating in Europe.

According to published information, this is the application given by the Americans to the surplus value of their exports.

In reality the United States import much more than is shown by the figures of their Trade Statistics, but much of their importation is invisible because it consists of bonds, shares, titles of credit, etc. that pass through the Post Office and not through the Custom-House.

## — VI —

To sum up, the preceding study of the commercial operations of Great Britain and of the United States shows that in the exchange of merchandise and products Great Britain imported in 1909 the

sum total of .. .. .	£ 624,700,000
and exported .. .. .	£ 469,700,000

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Showing a difference of .. .. . £155,000,000  
as an excess of imports over the exports.

On the contrary, in the year 1908 (we have not the figures for 1909), the United States exported in merchandise and

products the sum of . . . . .	\$1,860,773,346
and imported.. . . .	\$1,194,341,792
Showing an excess of . . . . .	\$666,431,554

of exports over the imports.

Here we have opposite results, notwithstanding they refer to two nations enormously rich, prosperous and progressive.

It would be too long to analyse the international trade of other countries, but we may notice a few statistics.

— VII —

According to the Board of Trade Journal the commerce of several nations in 1909 is represented by the following figures (in thousands of pounds sterling):

Country	Imports	Exports
Germany.....	403,836	328,473
Belgium.....	136,396	103,876
France .....	238,905	220,466
Switzerland.....	63,019	43,907
Spain.....	37,827	36,436
Italy.....	123,165	73,349
Austria-Hungary ....	115,877	96,393
Egypt .....	22,809	26,755
Japan.....	40,133	41,851
British India .....	80,561	112,431
Canada .....	71,228	55,223
South Africa.....	28,336	50,532

As is seen, in some countries there is an excess of exports over imports and in others just the opposite.

In the last quarter of a century Japan has developed and progressed enormously in spite of the very costly wars in which it has been involved; but it has needed the help of foreign capital which has been obtained by means of an excess of imports over its exports. The following figures are taken from its commercial statistics.

In millions of yens (*1 yen=2.59 francs*).

	Exports	Imports
1880.....	28.4	36.6
1890.....	56.6	81.7
1900.....	204.4	287.3
1907.....	432.4	494.5
1908.....	378.2	436.3

In fact, limiting ourselves to the traffic in merchandise, and admitting the exactness of the statistics, it would be impossible to calculate whether one country is debtor or creditor with regard to another.

Macleod says:

"Imported goods that are registered by the Custom-Houses are divided into distinct groups: 1st.—The reimportation of goods that have been exported; 2nd.—merchandise sent here for sale or as a speculation; 3rd.—merchandise sent here in transit for re-exportation to other countries. But as the registers of the Custom-Houses do not classify these different kinds of imports, there is evidently no means of ascertaining the value of the imports corresponding to each class; and therefore it is absolutely impossible, if we take into consideration merely the registers of the Custom-Houses, to say whether the exchanges are favourable or otherwise."

## — VIII —

In fact the real general principle is that the financial situation of a nation is not established by its trade with any one country, but by the sum total of its commercial, finan-



cial, economic and social relations with all the other nations taken as a whole.

The economic balance of each nation comprehends the total, at any given moment, of its receipts and the obligations contracted for and against.

The movement of goods and products is only a part of the sum total of the transactions.

In the actual conditions of the civilized life of nations there pass incessantly from one country to another;

1st.—People.

2nd.—Goods and products.

3rd.—Titles, coupons, instruments of credit, etc.; and

4th.—Treasure and coined money.

These four general groups may for greater clearness be sub-divided as follows.

A.—People.—immigrants, professors, professional men, etc.

B.—Goods and products of all kinds.

C.—Titles of credit, bonds representing loans, shares of financial and industrial companies, coupons and instruments of credit of innumerable kinds.

D.—The amortization and interest of public and private loans, dividends on undertakings in progress, professional fees and salaries, etc.

E.—Cost of freight for goods and fares of passengers, carried by foreign vessels, and the cost of carrying the mails.

F.—The expenses of national shipping in foreign parts and vice-versa.

G.—Insurance, brokerage, commissions and other similar charges effected by individuals of one country on behalf of residents in another.

H.—Expenses of travellers and visitors to foreign countries, their purchases of jewels, clothing and works of art.

I.—Savings of immigrants, colonists, merchants, and manufacturers sent from one country to another; and

J.—Expenses and investments of the Government of one country in the territory of another.

And this is not all, but it is enough to cause anxiety to statisticians who wish to get to the bottom of things and to be able to estimate the transference of values.

The basis and the general object of the transactions between all nations is to balance their accounts, and for each individual to meet his engagements; and this is done generally in these modern times by means of Instruments of Credit. The general tendency is to compensate accounts in order to avoid remitting Treasure, which is expensive, and for that reason there is a force in permanent action directed to bring about that result.

## — IX —

Every transaction implies a creditor and a debtor and therefore every transaction implies the creation of a debt that, as a general rule, especially in transactions with other countries, is represented by a Bill of Exchange. The Bills represent not only the value of the imports and exports of goods, but they also represent all kinds of debts, whatever their origin. And further, many drafts for large sums have no other basis than a simple credit granted in a letter by a Bank or some other Financial Agent to a correspondent or client in another country.

The Bills that are continually drawn on commercial centres are for different periods, and are drawn by persons of very varied credit and solvency, and they naturally obtain also varying rates of exchange.

As a general rule the movement of Bills in all countries is found in the banks and in the strong commercial houses that buy or negotiate in some form or other the Bills drawn by persons relatively unknown or of little credit; the banks by this means supplying themselves with funds abroad in order to satisfy their own drafts in favour of those who need to settle their obligations within or without any country whatever. By means of those operations, of the buying and selling of Bills, and operations of arbitrage, international trans-

actions throughout the whole world are liquidated through the banks and other financial houses.

The individual who receives merchandise and who has to pay for it in any country whatever, buys directly or through a bank Bills drawn on goods or products exported by another individual to whatever country:

Macleod says:

“The merchant (if we may call him so) who deals in Bills, acts on the same principles as the dealer in any other commodity: he buys them where they are cheapest and sells them where they are dearest...

This circuitous method is called the *Arbitration of Exchanges*, and the sum which is given in London for the ultimate price it realises in Paris is called its Arbitrated Price...

The scale on which these indirect operations of exchange is carried on is immense, and peculiarly affects the London Exchange... hence although the exporters may send their goods to different countries, yet, if they can draw upon London, their Bill will be sure to find some purchasers somewhere, to be remitted to England.”

Guyot says:

“‘The City’ is not only the financial centre of the British Empire but also of the world.”

This is not merely a saying: it is a fact. A Bill drawn upon London is a system of international exchange recognized by the whole world. Every exporter sells to his local bank his draft upon London although his merchandise may be sent to other countries and not to England:

The Chinese merchant who sells his tea to Russia or Germany, his silk to the United States, is reimbursed through the London Market; and the same thing happens with the German merchant who sells his goods to China. The coffee exported from Brazil to France or Italy, the cotton sent from New Orleans to Poland, the sulphur that goes from Sicily to the United States, the agricultural machinery sent from the United States to the Argentine Republic—all these transactions are liquidated in **The City**. When the United

States indemnify Spain for Cuba, when China pays her war indemnity to Japan, it is in London that the financial operation is effected.

All know that gold is to be obtained in London. In that free market there is always supply and demand. The merchant who sells goods to Great Britain is paid with a draft upon London and the buyer of English merchandise also pays with drafts upon London.

On account of that enormous number of transactions, the London Clearing House cashed and compensated in the year 1909, cheques, drafts, etc., to the value of £13,525,446,000 that is, more than 340 milliards of francs.

If the debtor in a foreign country has no money with which to pay a Bill drawn by another individual who had exported merchandise, titles of credit or treasure, he would send in payment of his debt, or he would sell his own bonds, shares or other titles of credit, if he had any.

If he were not in a situation to do that, he would send metallic money or treasure if he has it in his private coffers or at his bankers, or as a last resource he would send a draft that a banker might let him have on credit.

If he is not able to settle his obligation in any of the ways above mentioned, it means that he is insolvent, that his foreign creditor will lose his money, and that some day the relations between the two will be liquidated, the loss passing to the account of Profit and Loss.

To sum up, this is the general form of commercial operations, that are merely transactions between individuals as we have several times stated; and it is a lamentable error of judgment to pretend to make all the inhabitants of the country responsible for those individual transactions.

If there were many individuals that imported from abroad more goods than they could fairly pay for with their resources they would be, and they are in all countries, those who suffer the consequences of their imprudent undertakings, and the greater part of them would have to declare them-

selves bankrupt; but that does not mean that the whole country would be responsible for those insolvent debtors.

This is the error of judgment that has done so much damage in Chile.

For the rest, this is no novelty; in all countries of the world and at all times there are insolvent persons who cannot meet their obligations and whose creditors suffer the consequences .

— X —

We have explained how by means of Bills of Exchange, Clearing Houses and arbitration transactions, international trade is carried on, avoiding the continual use of metallic money.

There is also a large number of transactions carried on within every country without the intervention of money and that are liquidated by a perfected system of exchange that is called Credit.

It is well to make a comparison between the value of the transactions and the necessity for metallic money. These two values do not coincide. The development of compensations in all the world in the form of exchanges in the banks, or through the clearing houses, is a sign of increase in the transactions, but not in the amount of metallic money that is required.

It is well known that the internal trade of every country is very much greater than its international commerce; it has been estimated that the internal trade of the United States is 24 times as great as its foreign trade. It will be understood therefore how it is that the Clearing Houses of England, the United States and other well-organized countries effect exchanges or compensations to the value of thousands of millions, with the intervention of only an infinitesimal proportion of metallic money.

Unfortunately, for want of statistics we are unable to give any data on this matter for Chile.

It is a fact that the debts and credits of a nation have to be balanced in the long run and that no nation definitely pays away all its metallic money for the sole purpose of obtaining foreign merchandise, remaining without a metallic currency. The causes that can drive out that currency of fixed value are to be looked for elsewhere.

— XI —

When a country possesses much accumulated capital it grants credit to other countries and supplies capital, sending generally its value in goods and receiving in payment securities, that is to say bonds, shares and other titles of credit. These values are known by the name of incorporeal property.

Great Britain effects enormous operations in that form. It is known that English capitalists recently, in the year 1908, lent to Canada £40,000,000.

It is notorious that operations of that kind with the United States have been carried on to considerable extent for many years.

The "*Quarterly Journal of Economics*" of April 1899 contains the following:

"Whatever form the evidence of the transactions may assume, whether it be found in national, State, corporation or individual indebtedness in the bonds or in the stocks of railways or industrial enterprises, or in the private ownership of manufacturing establishments—in all these cases and under many other disguises, the people of the United States as a whole are employing foreign capital in the support of their general system of industry. The interest, the dividends, or the current profits, if any, are the reward of the lender: the general gain, convenience, and stimulus coming from the development of a particular resource or industry, or from the more rapid and symmetrical development of our system as a whole, inures to the advantage of our community. Borrowing in this sense we have carried on for a century upon an ever-increasing scale and shall doubtless long continue to

carry on unless we wantonly sacrifice our unexhausted ability for vigorous advance.

As great debtors, in this large sense the United States have necessarily great payments to be made to their creditors, to be made according to the standard of the commercial world, and therefore called, conveniently enough, gold payments. This consequence of our position as a debtor nation is habitually spoken of as a perpetual drain upon our stock of gold and as a necessary hindrance to the maintenance of a gold currency. And yet nothing is more certain than the fact that the interest, dividends, and profits upon foreign capital employed in our industries are no more a drain upon our gold than any other debts to be paid in the market of the world. They no more require the export of gold than a payment for goods or securities; and even if by their terms the payment is to be made, not, we will say in pounds sterling, but specifically in gold coin, neither the obligation nor the mode of its execution differs from that of the payments habitually made in foreign trade. It is not, even in this case, the actual transportation of metal across the Atlantic that is called for, but the payment of metal in London, Paris or Frankfurt, the debtor providing the means of payment at that place as he finds easiest,—by selling American wheat or cattle, or perhaps by a fresh loan. In fact, in the actual process of settlement, one international liability is like another. They all take their place among the conditions which regulate the barter of commodities between nations, stimulating sales here and discouraging them there, and thus by their action on the relative level of prices requiring habitually only the clearing of comparatively moderate balances. ‘Gold interest’ and the like, in the settled course of trade, simply call for the regular export of a larger amount of saleable commodities, the proceeds of which are finally converted, in the foreign market, into that medium which secures the execution of the contract for foreign interest payments.

Without further exposition of these familiar facts, it is enough for the present purpose to point out that, although

a systematic course of foreign payments on a large scale may have much to do with the habitual level of prices in the country making the payments, it has no tendency to strip the country of the gold necessary to carry on its home transactions upon what has become, for it, the normal level. It is only when we come to the return of borrowed capital, or to the transfer in either direction of securities which represent debts, that we find in the relations of the borrower anything that can be treated as a permanent disturbing element. Indeed, the return of the borrowed capital, or, in other words the payment of debt can also be set aside as being little likely in practice to be the cause of serious disturbances, so steadily is cancelled debt replaced by fresh borrowing. It is the transfer of securities for investments or for speculative purposes, sometimes in large masses, acting as an unseen import or export, and therefore calling for settlement in precisely the same way as a movement of merchandise, that is most important from the present point of view. It is this which at all events appears to be the cause of most frequent anxiety as to the drain of specie. The possibility that at some moment of stress, on one side of the water or the other, stocks and bonds to an unknown amount may be launched by London upon the New York market creates a vague apprehension all the more disturbing because the facts involved can never be measured with precision.

No doubt the great class of international securities which have so important a place in the operations of modern finance, while they facilitate settlements and make transactions easy which would otherwise be impossible, at the same time often make the movements of commerce unsteady, and increase the swiftness and intensity of their changes.

This, again, is a drawback suffered for the sake of great benefits enjoyed, the world being on the whole immeasurably the gainer."

The fact is that international accounts are settled without the remittance of gold except in an insignificant proportion.

Foville says in "*The Economic Balance of the Nations*".



“And beneath these successive layers of values in action is concealed a 4th category of imports and exports, the importance of which tends to increase day by day and that, foreign to the Balance of Trade, as our fathers understood it, becomes on the contrary one of the essential factors of the economic balance of nations. Tens, hundreds of millions, of milliards, may cross the frontiers unperceived and travel round the world; just as the rivers that we see flowing under the open sky combine with the subterranean currents in an equal or superior quantity to carry the continental waters down to the sea, so wealth may follow alternately in its passage from one country to another the exterior channels whose lock-gates are guarded by the Custom-House, or the secret ways where nobody exercises control.

The mobilization of capital has in our days made extraordinary progress. Whole fortunes can be enclosed in the envelope of a letter. A telegram is sufficient to cause millions to change hands. The old Bill of Exchange is only one of the hundred methods that we make use of to avoid useless mobilization of money. Negotiable titles, the State debt, shares, obligations, whose fluctuations of value are quoted publicly by the Exchanges and that change hands so easily: are they not a money, lighter and more discreet than all the rest? Their coupons are also money. There are also many others that pass unperceived through the Post Office. The multiplication and perfection of instruments of credit, cheques, bonds, orders of payment, transferences, etc., now reduce metal to the secondary rôle of a resource only to be used in extreme cases. Ninety-nine times out of a hundred the representative title is sufficient to settle international accounts whatever may be the distance between the debts and the credits.

At certain periods, when the harvests have been insufficient in Europe, America undertakes to supply us with food. Well then, the European portfolios contain at such times a large quantity of American securities, and America receives a part of them in payment, being more satisfied than

if the gold extracted from its mines had been returned to it. Preserving the due proportions, liquidations of this kind are now common. The financiers know it well; but statistics have not yet the means of reducing it all to figures. It is well known that the French nation also has large investments in that form in foreign countries, of which the interests are paid, partly in merchandise, partly in new investments, and a small part in money.

In these operations many countries import great quantities of merchandise and nevertheless their capital increases.

But two kinds of foreign investments in securities can be clearly distinguished: fixed investments for the sake of obtaining an income from their dividends; and transitory investments by way of speculation, that change hands more easily.

The latter are called financial investments; frequently they change hands because of the alteration in the rate of discount, and their influence upon the movement of gold is somewhat greater."

Macleod says in his *"Elements of Economics"*.

"Immense quantities of incorporeal property are imported and exported, and affect the exchanges the same as any other merchandise. But as those masses of property pass through the post and not through the custom-house it is not possible to state the amount exported or imported; and consequently the problem of foreign exchanges is an undecipherable enigma for those who only take into account the official statistics of the Board of Trade."

The quantity of movable values that exists in the world is enormous.

Mr. Alfred Neymark states:

"The international tabulation of movable values is an arduous undertaking: it requires much time and patience; it bristles with difficulties and the figures that it contains must be several times verified and examined minutely. Only by proceeding, it may be said, step by step, prudently, is it possible to establish it little by little, year by year, in those

countries where have been created, circulate and are negotiated those pieces of paper called titles, bonds, shares, obligations, etc.; paper that may be said to have revolutionized the whole world and to have contributed to the execution of works in time of peace and unhappily also in time of war. Without these securities the use of credit would be still in its infancy; it would have been necessary to renounce numerous undertakings that without them could never have been carried out. Formerly only corporeal property, immovable fortune, was known; in our days incorporeal property, movable fortune, has attained a prodigious development.

Remember, that the figure of the negotiable values in the different European markets is not far actually from 570 milliards; of which 342 to 345 milliards may belong to the inhabitants of those countries.

To these figures we may add those that represent the securities created in the United States and in other extra-European countries, and we shall arrive at enormous totals. To do this we must wait yet for the arrival of official documents that, after many petitions, have been offered us by the Government of the United States.

This colossal movement of securities, opposed to that of the precious metals and of fiduciary currency in the market, is worthy of consideration.

For the last four centuries, gold and silver to the value of 10 milliards of francs have been extracted from the bowels of the earth. Actually, in 1905, the total amount of specie and of the fiduciary currency of the great European and extra-European Banks of Issue varies, in round numbers, from 25 to 27 milliards.

This mere enumeration of figures, this simple comparison, indicates the preponderating importance acquired in the whole world by the creation, circulation, and negotiation of securities, and justifies the resolutions that have been adopted for establishing and continuing these statistics in spite of the difficulties they offer."

Macleod, referring to incorporeal property says (*Theory of Credit*):

“At the present time credit, in its various forms is the most gigantic species of Property in this country and constitutes the most colossal branch of commerce.”

“According to the *Moniteur des Intérêts Matériels* of Brussels the securities created in the different countries of the world were in 1908, 21·22 and in 1909, 24·6 milliards of francs, all arising from the loans of States, provinces and cities, and from debentures of establishments of credit, of railways and industrial enterprises.

Securities are an important substitute for metal in international commerce when they are used for settling accounts.

Securities take the place of money in two circumstances:

1st.—When they are sold abroad by order of the debtor himself; and

2nd.—When, in certain cases of arbitration provoked by the state of the exchange, those same values tend to regulate it automatically.

In the use of securities (bonds, shares, etc.) the United States play the chief part in the world, not only by reason of the extent of their operations, but because such a considerable proportion of those titles is issued there, because the enterprises that affect them are established in the country, and naturally they find an easy market.

It is not probable that in the general commerce of the world, nor in the special commerce of the United States, the proportional movement of gold has been increased by the transactions in instruments of credit.

On the contrary, it is certain, like any other improvement of methods, that the increase of the transactions in securities has contributed to diminish the movement of gold in proportion to the total amount of the operations.

In our times the antiquated formula “products are paid with products” is erroneous and has no application.

— XII —

The exportation of metal is the last resource for the payment of debts abroad because its transport is costly and, as a general rule, it is the most expensive method of remitting funds.

Enormous commercial operations can be realised without the remittance of gold, utilizing international securities; but the use of the latter is limited almost exclusively to those countries that have gold money as the basis of their investments.

Apart from the elements that we have mentioned as constituting the economic balance, the importation or exportation of gold is also influenced: by home and foreign politics when there are disturbances or wars, for then credit is perturbed; by the monetary market and the rate of discount in the different commercial centres when the difference of the interest between the centres is greater than the cost of remittance of treasure from one point to another; by the custom-house policy of protectionism, or of free trade; and by other causes less evident.

For the rest, the frequent remittance of gold between two countries that do not produce it, indicates an unsatisfactory state of things, for the interchange of products would be more profitable for both.

Macleod says:

“So far from the principle of the mercantile theory being true, that gold and silver are the most profitable and desirable objects of import, the direct reverse is unquestionably true, that gold and silver are, of all objects of commerce, the most unprofitable; and it is a certain axiom of commerce in a state of freedom *that Bullion will not be imported until it has become unprofitable to import any other article.*

There is no class of traders who derive so little profit,

in proportion to the capital invested in their business, as dealers in Bullion and Money of all sorts."

The movement of gold is insignificant in comparison with the movement of merchandise in the world generally.

Also the importations and exportations of gold do not correspond absolutely to the Balance of Trade, and without any doubt we have to look elsewhere for the explanation of the activity or the suspension of the international movement of metal.

The following figures referring to the United States will throw some light upon this matter:

BALANCE OF TRADE			GOLD (balance)	
Balance in favour of the U. S			Imports	Exports
	\$		\$	\$
1898	620	millions	142	0
1899	476	"	6	0
1900	649	"	12	0
1901	585	"	0	3
1902	391	"	8	0
1903	489	"	21	0
1904	415	"	0	36
1905	448	"	3	0
1906	478	"	108	0
1907	500	"	88	0
1908	637	"	0	31

We have here for example that in 1906 with a balance in favour of the United States of 478 millions in its *Balance of Trade*, that country imported 108 millions in gold; and in 1908 the balance in favour of the United States having increased to 637 millions, it exported also 31 millions of gold dollars.

It is difficult to determine the rôle of gold in the international trade. The figures of the administration of the United States custom-houses supply us with the following data;

According to the statistical abstract of the United States its foreign commerce is as follows:

**1897—1906**

**Merchandise**

	Millions of dollars
Exports .. .. .	13,800
Imports.. .. .	9,000
<hr/>	
Excess of imports .. .. .	4,800

That is 25 milliards of francs.

**Gold commerce of the United States**

	Millions of dollars
Imports.. .. .	750
Exports .. .. .	504
<hr/>	
Excess of imports .. .. .	246

That is 1,280 millions of francs.

This last figure that in ten years has compensated 25 milliards of interchanges represents only the 20th part.

So that this balance of exports of the United States, of 25 milliards of francs, has been settled with an excess of the importation of gold, that amounted to only 5% of the balance of exports.

In that period of 10 years the United States settled its commercial balance with England with less than 3% of gold.

It is clear by this that the movements of the importation and exportation of gold obey also other influences than those of the Balance of Trade, and play a part entirely distinct from that which is generally attributed to them.

We find also that Italy, in spite of having an excess of 5,891 millions of lire in its imports for the last 10 years, had an excess also of importation of gold and silver money as the following table shows:

Balances against Italy on account of excess of imports in its international trade in the years indicated, and balances of the importation and exportation of gold in the same country.

EXCESS OF IMPORTS EXCLUDING THE PRECIOUS METALS		GOLD AND SILVER MONEY COINED BY THE LATIN UNION (in millions of lire)	
Year	Millions of lire	Importation (excess)	Exportation (excess)
1900	362.0	.....	9.3
1901	344.0	.....	4.6
1902	279.8	24.8	.....
1903	320.4	150.2	.....
1904	304.9	34.8	.....
1905	310.5	161.3	.....
1906	608.4	133.4	.....
1907	931.8	162.3	.....
1908	1184.0	7.-	.....
1909	1245.4	.....	36.1
TOTAL....	5891.2	Tot. 673.8	50.0

It is supposed that a great number of Italian residents in North and South America send much money home to their country.

As a general rule when gold is exported in inconvenient quantities, it is caused by defects in the legislation of the country itself and is therefore the fault of the country.

According to the official statistics of the United States, the gold produced in the world from 1493 up to 1908 amounted to 12,935 millions of dollars, that is, approximately, 65,000 millions of francs. But of this total only a part is coined; some is preserved in the form of bullion, much has been converted into jewels and other works of art, and a certain proportion has been wasted and lost.

According to the same official statistics of the United States it was estimated that on January 1st 1909 the quantity of metallic money existing in the world was the following:



Gold ... ..	7,014	millions of dollars
that is approximately...	35,000	millions of francs
Silver ... ..	3,530	millions of dollars
or, approximately, ... ..	17,650	millions of francs

— XIII —

According to A. de Foville (*Elements of the Economic Balance of the Nations*): "The imports and exports of merchandise from one country to another in the whole world from 1903 amounted to 125 milliards of francs; and according to the official statistics of the United States, in 1909 they amounted to more than 130 milliards of francs.

The value of the home trade of the United States has been officially computed at 24 times that of its foreign trade. Estimating the home trade of all the countries of the world (a very hazardous calculation) at that proportion of 24 times its foreign trade, we should have as the approximate value of the trade of the whole world, home and foreign, the sum of 3,250 milliards of francs.

A great part of this universal commerce, especially the retail trade, is carried on by means of the continual and repeated use of metallic money, or its representative in the form of bank-notes; but without doubt the greater part is settled through the medium of banking-houses and by the banks all over the world.

These banks serve as intermediaries for liquidating transactions between individuals; and then the accounts between one bank and another are settled by means of the exchange of the drafts each one has to cover, either directly or through the Clearing-Houses established for that purpose.

Already in 1906, in the Clearing-Houses of the United States alone, values were compensated to the amount of 800 milliards of francs; and in the Clearing-Houses of England to the value of 500 milliards.

We have noticed that in the Clearing-House of London

alone, that is the world's centre of compensations, values to the amount of 340 milliards of francs were dealt with in 1909.

The system of exchanges and compensations in the Clearing-House is perfected and completed by the operation entitled **Arbitrage of Exchange**, that we have already mentioned, and that consists of buying and selling the Bills of Exchange drawn upon all the different countries and arriving at a liquidation of them, having recourse to the least possible use of metallic money.

Simultaneously with the Bills, or for want of them, there come into play international securities for settling local or international obligations.

As we have shown, great masses of these securities or incorporeal property are continually imported and exported by all countries.

According to Alfred Neymark, in 1905 there existed in Europe alone securities to the value of 570 milliards of francs that, for the cancelling of obligations, play the very important part that we have explained. This is without taking into account the securities that exist in the United States and in other parts of the world. The same author estimates that in 1907 the amount of incorporeal property in the market had increased to 740 milliards. And these elements increase enormously; according to Leroy Beaulieu, France alone can dispose annually of 1,500 millions of francs for investment abroad, and doubtless a great part of this is in the form of shares, bonds, etc., that go to increase the sum total of the securities.

The 740 milliards in securities and their coupons that already exist in the world and that are constantly increasing, play a very important part, by means of their transfer and sale, in the settlement of transactions.

Only in extreme and pressing cases, when it is not profitable to send merchandise, when Bills can only be obtained at a high rate of exchange, when the remittance of incorporeal property (bonds and shares) is inconvenient,

then the very costly method of the exportation of gold is resorted to.

The amount of gold coinage that exists at the disposition of mankind is insignificant compared with the gigantic figures, that we have quoted, of the world's trade and of the securities; nevertheless it is sufficient.

If the value of the world's trade be taken into consideration, it will be seen to what a small extent, materially, metal is really used for settling accounts. The greater part of the transactions of home and foreign trade are liquidated, as we have explained, by means of compensations, or the transfer of securities.

According to the data noted it would appear that the amount of coinage at the world's disposal in 1909 for the settlement of all obligations and transactions is not more than 53 milliards of francs, of which only 35 milliards, more or less, are in gold.

The 53 milliards of francs in metallic money that approximately exist in the world serve, by changing hands an infinite number of times, for the settlement of transactions and for the measure of value in all the commercial, industrial and financial operations that are realized among all the nations of the earth, the registered value of which amount at least to (international trade) 130 milliards of francs; that is to say that the metallic money in existence is only equal to 40% of those transactions.

Besides, those same 53 milliards of francs in metallic money also serve for the home trade and the transactions between individuals in all countries of the world, transactions the value of which it is absolutely impossible to record, but which exceeds the international trade by an enormous and incalculable amount. Further yet those same 53 milliards of metallic money serve to maintain the exchange and convertibility of many millions of Exchequer and bank-notes of different countries.

In many States convertible notes circulate in representation of the metal that remains in their coffers and that

therefore cannot enter into circulation also, for it has to be kept in reserve for the payment, whenever demanded, of the notes that represent it.

The importance for a country of having its finances and its monetary system based on gold, is not, as we have seen, that it is necessary in each transaction to use materially gold money, but that this money is a fixed measure of value, and that in the matter of the international exchange it maintains the approximation of *gold-point*, is efficacious in keeping the fluctuations of the rate of exchange within narrow limits, and holds the exchange practically fixed.

The function of the money standard is juridical rather than material. It is fixed by the law that confirms and legalizes the commercial value that a certain piece of metal of fixed weight and standard already possesses, that assigns to it a limited and obligatory releasing power and a standard value to which all obligations are adjusted.

The total amount of securities in Chile, that is, the notes of forced currency issued by the Exchequer, the values represented by the balances of the banks, the mortgage bonds, and the innumerable contracts and obligations between private individuals, cannot amount to less than 2,000 millions of pesos.

Well then, at the present moment, for every penny that the Exchequer note rises or falls in value, the securities in Chile are affected to the extent of some 200 millions of francs.

Judge then of the importance of maintaining a fixed value of the *measure of value*, that to-day in Chile is a miserable paper of fluctuating value, a promissory note that nobody wishes to pay.

If the gold only, the raw material of money, be taken into account, its trade is very small compared with the trade in cereals, in textile fabrics, in hardware, and nevertheless with respect to the result it is the most important.

The currency of a country is all the more perfect in pro-

portion to the more restricted use of metallic money in relation to the amount of its trade.

The continual perfectionation of the banking system increases the useful effect of that metal.

The necessity for metal becomes each day less in relation to the importance of the transactions.

We have seen that the very extensive commercial and financial operations between England and the United States in the decade 1897-1906 were liquidated with a movement in gold of less than 3% of their value.

Thus the Balance of Trade is settled, thus is liquidated the Economic Balance of the Nations, making material use of gold only in a very small relative proportion, but making it play the very important part of the *Measure of Value*.

#### — XIV —

We have made the preceding appreciations, in order to pass on to an exposition of the disadvantageous situation in which Chile is found in this respect.

This country, through the fault of its incompetent legislators, has to limit its Economic Balance to its Balance of Trade and to a few other elements only. It has been placed in a very unfavourable position with respect to other countries that can freely carry on their operations upon the basis of a fixed measure of value, that is, upon gold.

As there does not exist in Chile in general use a money of fixed value, and as the monetary unit has varied in value, during 60 years, between 48d. and 8d., it follows that there is no basis for the securities, and so this country is deprived of that most important resource. There exist in Chile, more or less 300 millions of pesos in mortgage bonds, but as they are payable in paper money of uncertain and fluctuating value they do not serve for international transfer.

For the latter object there can only be applied a small

quantity of shares of joint-stock companies based upon real values.

Recently, at the beginning of 1910, some of the bonds issued by the *Caja Hipotecaria* of Chile have been placed in Germany, but the purchasers have been induced to believe by the selling agents that the said bonds would be paid with values at the rate of 18d. per peso. We all know that this will not happen and when the purchasers are undeceived it will add little to Chile's credit.

The commercial situation of Chile is very distinct from, and unhappily much more difficult than that of Great Britain or of the United States.

On account of the obstinacy shown in keeping the country under the regime of the paper money, there is not, nor can there be, in Chile, a movement of securities in the proportion and form that exist in the countries that we have mentioned.

As metallic money has not been in circulation since 1898, transactions cannot be regulated by means of the importation and exportation of treasure, that has no application here seeing that the forced currency prevails.

Nevertheless the partisans of the paper money are always declaring that metal is exported for settling the adverse balances of the Balance of Trade. That is to say, according to them, there is exported what does not exist nor has existed for the last 12 years!

In Chile the general criterion is completely perturbed. They cannot or do not wish to understand that the duty of the public authorities is to establish firmly a monetary system of fixed value, a measure of value, and a good banking system, and compel everybody to conform to those laws without confounding them with the commercial transactions between private individuals.

They are not able to understand that the question of bringing or not bringing merchandise, of paying for it or not paying for it, of selling it or not selling it, are private transactions of each individual and have nothing to do with

the monetary system except conform to the law on the matter.

They cannot comprehend that whenever any conflict arise, the transactions should be liquidated solely by the commercial code.

They are always endeavouring to see in the figures of the Trade Statistics a great excess of imports, in order to draw the inference that the Conversion cannot be realized because this or that merchant owes money in Europe.

Meanwhile the positive fact is that if the Statistics show anything at all, they show the exact opposite of what the partisans of the paper money pretend.

Chile is a country whose extension, whose territorial enlargement during recent years, whose hard-working population and fertile soil, require not only to retain the capital it produces, but to attract from abroad that which it needs to add greater impulse to its progress.

For the clearer comprehension of the state of things in Chile let us make a comparison with another country whose monetary system is based upon gold.

The Trade Statistics of Canada show the following movement of exports and imports:

Year	Exports	Imports
1900 ... ..	£39,400,000	£38,900,000
1901 ... ..	£40,400,000	£39,100,000
1902 ... ..	£43,500,000	£43,600,000
1903 ... ..	£46,400,000	£49,600,000
1904 ... ..	£43,900,000	£53,800,000
1905 ... ..	£41,800,000	£54,800,000
1906 ... ..	£52,700,000	£59,700,000
1907 ... ..	£53,100,000	£72,800,000
Total.. ...	£361,200,000	£412,300,000

These figures prove that in 8 years Canada imported £51,100,000, that is, 682 millions of pesos of 18d., more than

it exported. To put it more plainly, Canada attracted and established in its territory, in the space of 8 years, new capital to the amount of 682 millions of pesos of 18d.; more than 85 millions yearly.

During the year ending March 31st 1910, Canada imported to the value of 370 millions of dollars, and the exports amounted to only 279 millions of dollars.

From 1868 to 1907 the resources of the Canadian banks have increased in the following manner:

	1868	1907
Paid-up Capital.....	£ 30,500,000	£ 96,000,000
Deposits.....	£ 34,000,000	£ 635,000,000
Loans.....	£ 52,000,000	£ 710,000,000

These figures show that in that space of time, while the Canadian banks have only trebled their capital, their deposits have increased nineteen-fold during a period of excess of imports, that is, of attraction to the country of new capital. Those imported goods were sold in Canada and a great part of the money remained there.

Don Roberto Espinoza, in his book "*Financial Questions*" says as follows:

"The imports reveal that the productive energies of the country, the working forces of the nation, are developing and need the concourse and co-operation of foreign industry to be able to profitably extend their sphere of action. The only thing that the imports by themselves reveal for a certainty is that they come to increase the active capital of the nation, that they are values added to the national wealth and come to augment the conveniences, the ease, the productive power, to create sources of wealth, and of pleasures... within the importing country.

If the goods imported be machinery, they come to increase human effort a hundred-fold in the work of production, of transport and of trade; if they are textile fabrics, they serve to protect the inhabitants from the rigours of



the climate and to add to their productive power by increasing their powers of resistance; if articles of food, they give greater variety to the means of subsistence...

So that a country can go on from year to year importing more than it exports without this signifying a state of debt.

Young countries (in which those nations that possess large capital in money find a vast field for enterprise and trade), besides the produce of their mines, their forests, their waters and their lands, may return to the foreigner the same monetary capital transformed into shares in mining, timber, agricultural, navigation, railway, manufacturing, telegraph, and telephone companies... without running the danger of becoming on that account the property of the foreign nations who supply them with monetary capital. The lending countries recover their capital and receive their interest in a hundred different forms, in cash or in products. The borrowing countries are also benefited; there remain the permanent works, as railways, wharves, docks, telegraphs; there remain the large sums paid for salaries; the profits obtained by the purveyors of those industries within the country; the impulse or the direction given to industry.... in other words both the lending and the borrowing countries gain and there is neither spoiler nor spoiled, neither debtors nor creditors.

Capital, from so many nations, once in Chile and in the hands of our enterprising and intelligent countrymen, would serve to cultivate the land, to work the mines, to build railways, to dig canals, and besides paying the corresponding interest and amortization, would leave in the country the industrial impulse and the profits of the enterprisers.

When our financiers and statesmen appeal to the patriotism of all the Chileans to consume less it can only seem, in the face of such evident and great absurdities, that they have left their common sense behind them somewhere. Indeed, to recommend the restriction of consumption in the precise moments when, by the regime of the paper money all are deprived of two-thirds or at least a half of their savings,

of their income and of their salaries, is a bitter sarcasm; seeing that for sheer necessity they have to reduce to one-half or to one-third the satisfaction of their wants because they cannot pay for them.

If a country prove to be debtor who should pay the debt?... the country? no; this is only a figure of speech. The individual or individuals who contracted the debt must pay it.

Would the bankruptcy of these individuals be the bankruptcy of the country? no; and even if the whole import trade should be declared insolvent (which has never happened in any country of the world that we know of) in consequence of excessive importation, would that fact imply the bankruptcy of the whole country?

Doubtless the other industries would suffer a rude blow from the suspension of the import trade; but from this to the economic ruin of the country there is a great distance, seeing that the productive power of the country would have suffered nothing from that bankruptcy. For the same reason, to speak of the failure of a country when there can only exist the possibility of the failure of a few imprudent traders (for it does not appear logical to suppose that all are endowed with the same incapacity) is a somewhat childish exaggeration.

— XV —

What happens in Chile with regard to its foreign trade? We have proved that capital is transferred largely from one country to another in the form of goods or products.

The Trade Statistics clearly show how the paper money drives the capital out of Chile.

Certainly we take into consideration that the figures of the exports and imports according to the Statistics are not absolutely correct; that there are different ways of estimating them, and that they are subject to error; but in any case they are a starting point for appreciation.

Between 1850 and 1877 the country had invariably a

metallic currency, and the exchange during those 27 years only fluctuated between 42d. and 48d. per peso; with the exception of 1876 and 1877 there was relative stability in the securities. There was no greater stability on account of the variations in the price of silver.

The Trade Statistics show the following figures:

	Exports	Imports
1850—1877 . . . . .	\$837,455,414	\$862,586,687

As is seen there appears an excess of imports, during 27 years, of \$25,000,000 that is, about \$1,000,000 yearly, according to the Custom-House Statistics.

It follows that during almost the whole of that period capital was brought into the country in the form of goods, because the gold currency was maintained, and therefore also, stability in the value of the money. While there was an excess of imports, there was at the same time an abundance of metallic money in circulation.

In spite of that excess of imports, the Exchequer Report for 1862 states the following:

“The abundance of national coined money of all types in circulation, and the convenience of uniformity in the monetary system, recommend now the exclusion from circulation of the gold and silver coins of the old coinage.

## — XVI —

Let us now pass on to the epoch of the paper money that was initiated in 1878 (14 years):

	Imports	Exports
1878—1891 . . . . .	\$666,000,000	\$836,000,000

It is seen that there was a deficit of 170 millions in the imports, during 14 years, that is, more than \$12,000,000 yearly.

Values were exported from Chile and their equivalent

did not return to the country; they remained abroad. Insecurity in the value of the paper money and its constant tendency to fall produced that result, that made itself felt immediately as the following figures show:

	Imports	Exports
1878. . . . .	\$28,819,721	\$36,109,754
1879. . . . .	\$21,585,691	\$43,830,493

These figures show very clearly how capital fled from Chile immediately after the substitution of paper money for metal. During the first 7 years of that period (1878 to 1884), the average rate of exchange, based upon the inconvertible notes, was a little more than 30d. per peso. During the six following years (1885 to 1890) the average rate of exchange, upon the same basis, was more or less 24d. In 1891 the average rate was 18d. Inversely to what happened during the period 1850 to 1877, from 1878 to 1891 a considerable portion of the capital produced here was withdrawn from Chile.

## — XVII —

Next we arrive at the epoch in which efforts were begun towards realizing the metallic conversion and restoring the gold currency.

In 1892 was dictated the 1st Conversion Law, upon the basis of the gold peso of 24d., and that year and the following year have to be considered together because the Custom-House duties having been modified, there was dispatched in 1892 much merchandise intended for the consumption of 1893:

	Exports	Imports
1892—1893 . . . . .	\$136,450,152	\$146,238,978

Here is seen an excess of imports to the value of \$10,000,000, that is, \$5,000,000 yearly. As soon as the restor-

ation of a metallic currency was announced capital from abroad began to come into Chile in the form of merchandise.

The average value of the note in 1892 was 18d. and in 1893, 15d.

The two following years, 1894-1895, were for Chile years of political and economic perturbations. The tenacious partisans of the perpetuation of the paper money made supreme efforts to obtain the derogation of the Conversion Law and to prevent the monetary reform. So keen was the conflict that it was necessary to arrive at a compromise by which the value of the monetary unit was diminished. The law then in force established that the Conversion should be effected upon the basis of a gold peso of 24d. and that the notes that existed in circulation should be paid with that money.

After violent discussions it was agreed to diminish the monetary unit (the gold peso) to the value of 18d. It was necessary to accept that compromise in order to save the situation. Without that concession, that is, without that reduction in the money, the Conversion would have been rendered impracticable by the great opposition it met with especially among the agricultural owners.

When the voting on that Law was taken in the Senate, that is to say, for the reduction of the gold peso to 18d., our vote was: "Yes, in order to save what is left" Our vote was registered in that form.

That state of affairs introduced fresh distrust in the public mind, the result of which is seen in the following figures taken from the Trade Statistics.

	Exports	Imports
1894. . . . .	\$72,040,420	\$54,483,616
1895. . . . .	\$72,919,882	\$69,206,552

So that in 1894 when the most violent discussions on the matter took place, distrust was again fomented and capital left the country, being withdrawn in the form of goods and products that were not reciprocated.

The average rate of exchange in 1894, calculated upon the note of forced currency, fell, and kept at 13d.

Great excess of exports and a very low exchange... Great exportation of products and excessive demands for drafts, not to pay for goods, that did not come, but to withdraw capital from the country for fear of the perpetuation of the paper money and the consequent depreciation of the paper unit...

In 1895 confidence was partly restored, for in that year the operation of the Conversion was commenced and a greater amount of merchandise was imported in proportion to the exports. The rate of exchange rose to 17d.; there was greater stability on account of the restoration of the gold money.

### — XVIII —

1896 and 1897 were the only two years during which we were entirely beneath the gold regime, and during which we enjoyed relative tranquility. The effect on the international trade of the country was immediate, and the Custom-House Statistics exhibit the following figures:

	Exports	Imports
1896. . . . .	\$74,359,414	\$74,082,805
1897. . . . .	\$64,754,133	\$65,502,805

Confidence being restored beneath the metallic regime now fully established, the flight of capital from the country ceased, and in 1897 there was registered a small favourable balance in the shape of imports.

The exchange was all this time almost fixed, at 17½d. and 17¾d., that is at gold-point, as 18d. was the intrinsic value of the gold peso. There was more confidence in bringing capital to Chile.

The discipline of credit was restored. The situation was normalized. The prices of all commodities fell, producing general relief.

Naturally the restriction of credit molested some individuals who had become accustomed to bad business habits. (It must be remembered that up to this point the statistics have been calculated in pesos of 38d., but from 1898 inclusive they have been based upon the peso of 18d., and for that reason the figures appear higher.)

— XIX —

We come now to 1898, a year of conflicts: international relations of the country in a critical state, and some of the Chilean banks once more in difficulties.

The advocates of the paper money of forced currency, that had never abandoned their pretensions, succeeded in influencing the Government and the Congress and, without sufficient reason, paper money of forced currency was again issued, driving the gold out of circulation. They took advantage of the international alarms and complications and exaggerated them, and with that motive, and with the object of sustaining some of the banks that were in difficulties, issued paper money once more.

Distrust and panic followed. In 1898 the Statistics showed the following figures: (in pesos of 18d.)

Exports.. . . . .	\$168,069,431
Imports.. . . . .	\$102,262,058

It can be seen that there was a deficit in the imports of more than 65 million pesos in a single year, a state of things never until then seen in Chile; and although the exports were so much in excess of the imports, the value of the fiscal note fell to 13d. There was not a sufficient quantity of foreign drafts in the market to satisfy those who wished to get rid of their inconvertible notes in order to withdraw their capital from the country. Paper money was again adopted, to the immense damage of the credit and the welfare of the country.

All this was logical.

By exporting a large quantity of products many drafts could be supplied, but not sufficient to satisfy the demand at a time of panic and when capital was fleeing from the country. In Chile there are many hard-working and thrifty foreign residents. Some of them invested their savings in small industries, others in houses and land and in shares of safe enterprises.

Some have been ruined through having invested their savings in bonds of the Land Banks, which bonds have continued to diminish in value side by side with the depreciation of the monetary unit.

Much capital is produced in Chile by work and thrift, but a great part of the savings is remitted and invested abroad on account of the greater security without the country against the depreciation caused by the paper money.

Many persons of all nationalities solicit Bills of Exchange for large and small sums. Some wealthy merchants keep their resources in Europe and not in Chile. If a panic is brought about by the fall in exchange, there is a great demand for Bills and consequently the exchange falls lower still; but the foreign merchants raise the price of their commodities in proportion to the depreciation of the note and in that manner protect themselves from risk. Nearly all of them, great and small, have their agents, correspondents and friends abroad who receive and place there, on their account, the amount of the Bills that they remit to them, and that are drawn on the value of the products exported from Chile.

The best proof of the flight of capital from Chile is found in the published balances of the foreign banks established in this country.

According to those balances the foreign banks held in Chile capital to the amount shown by the following figures, at the end of each of the years indicated below:

In 1906..	..	..	..	..	..	..	\$14,746,000
„ 1907..	..	..	..	..	..	..	\$34,697,000
„ 1908..	..	..	..	..	..	..	\$27,295,000
„ 1909..	..	..	..	..	..	..	\$26,517,000



And this uncontrollable withdrawal of capital in the form of the exportation of merchandise continues. This is logical and natural: In January 1906 the Chilean paper peso was worth 14½d. and, after enormous fluctuations, it was only worth 11d. in December 1909. The foreign banks make sure of their own capital, that they replace by the funds of the Chilean depositors who continue to run the certain risk of the uncontrollable depreciation of the currency.

The foreign banks and the wealthier merchants do not suffer so much because they have the means of defending themselves. Those who suffer most are the Chileans and the few foreign residents that have no means of defending themselves and of safeguarding their savings and capital.

In the meantime, while capital leaves the country in the form of products exported, our legislators affirm that gold will come when the exports exceed the imports...

What an absurdity...!

To replace the real capital that leaves the country in the form of goods and products, of gold and silver, they order the substitution of little lithographed papers: promissory notes that the debtor refuses to pay.

The year 1899 was similar to the preceding one. The exports amounted to \$163,106,133 and the imports to only \$106,260,358.

As is seen, the deficit in the imports persisted: the flight of capital from the country continued.

The value of the note that year was 15d.

## — XX —

We have already inserted a table of statistics showing that between the years 1900 and 1907 Canada imported goods to the value of 682 millions of pesos of 18d. more than its exports: that is to say, it attracted capital equivalent to that sum.

On next page we insert another table for the same period, referring to Chile, and that gives a result diametrically opposite.

	Exports	Imports
1900 .. .. .	\$161,642,548	\$128,538,142
1901 .. .. .	\$171,844,976	\$139,300,766
1902 .. .. .	\$185,879,965	\$132,428,204
1903 .. .. .	\$194,279,672	\$120,100,206
1904 .. .. .	\$215,997,789	\$157,152,080
1905 .. .. .	\$265,209,192	\$188,596,418
1906 .. .. .	\$271,448,216	\$225,285,516
1907 .. .. .	\$280,080,730	\$293,681,855
1908 .. .. .	\$319,149,072	\$267,264,169
1909 .. .. .	\$306,429,909	\$262,082,763
Total in 10 years. ..	\$2,371,962,069	\$1,914,430,119

Here we see that in the space of 10 years only, Chile has received \$457,000,000 less than the value of its exports.

And if we make the calculation upon the basis of the Trade Statistics, from 1878, in pesos of 18d., it would appear that the capital withdrawn from Chile during the time that we have been under the rule of the paper money approaches the colossal sum of **\$1,000,000,000.**

It must be taken into account also that the heavy loans negotiated in Europe by the Government of Chile from 1878 up to 1909 are equivalent to exports of the same value, because they enable the country to draw upon Europe in the proportion equal to the produce of the loans. And the evil pointed out, that of the deficit in the imports, persists and will continue, for in the year 1909 the difference between exports and imports amounts to \$44,000,000.

And after ten years of excess of exports, amounting to a total of \$457,000,000 we might ask: what will our legislators say who affirm that the restoration of a gold currency can only be obtained by means of an excess of exports?

Capital continues to leave the country, and the value of the paper money fell in 1909 to 10d. per peso... Chile, a poor country, supplying capital in real value to the rich countries of Europe...!

And here in Chile we print little pieces of paper to supply the want of capital.

In the Exchequer Report for 1896 is the following official declaration: "Capital began to leave the country from the moment of the withdrawal of the metallic currency. When paper money began to fall rapidly in value, this emigration of capital became more rapid and manifest. It was a general 'everyone for himself'..."

And nevertheless the advocates of paper money, whose ideas are predominant among the Public Authorities of Chile pretend to attract foreign capital to the country.

## — XXI —

It is notorious, as we have proved, that capital is transferred from one country to another in securities and in merchandise or products, because the proportion of gold money that is mobilized is extremely small.

One author says:

"A great excess of imports over exports denotes, not that the country in question gives more than it receives, but that it receives more than it gives."

In Chile there is no interchange of foreign securities, because that is prevented by the monetary system of depreciated and fluctuating paper of forced currency that prevails here. The reader will be able to judge if this is not a great inconvenience for our country!

In Chile the importation of merchandise is too much hampered, capitalists have no confidence, and the damaging result of this is that the imports are less than the exports.

The value not returned remains abroad.

All this is the effect of the paper money and of the want of seriousness on the part of the Public Authorities in fulfilling the obligations they have contracted.

There is no doubt that a part of the produce of the exports has to be applied to the payment of interests, dividends, and expenses of the Chilean Government in Europe;

but in a sound state of the currency those values would be replaced and compensated by other importations of capital.

Whatever interpretation be given to the figures of the Trade Statistics, suppose them to be inexact or exaggerated in either sense, let it be admitted that any proportion whatever of the excess of exports in Chile must be dedicated to the payment or to the service of national or private debts abroad, nobody will be able to deny the surprising logic that is noted in the figures of the imports and exports that we have quoted. They always adjust themselves to the stability, or to the want of it, of the value of the money; and it must be further added that the figures of the imports as a general rule are verified and proved, while those of the exports are attenuated and frequently not even registered.

We believe that the observations that we have set forth in this chapter prove without any shadow of doubt that the interpretation given by the partisans of the paper money in Chile to the phenomena of the Balance of Trade is entirely erroneous; and that with those theories they are causing enormous damage.

There is an abundance of capital in Europe seeking for an outlet to escape the onerous fiscal taxes; that capital is needed in Chile but it is kept out by maintaining the regime of the paper money, for the defence of which system absurd theories are invented.

# Appendix.

Liquidation of the account of Señorita Rosario Castillo in the Santiago Savings-Bank, reducing the Chilean pesos deposited into francs at the current rate of exchange at the time of making each deposit of 7 pesos—that is to say, to the effective value in gold of each peso.

DATE	DEPOSIT	EXCH'GE ON PARIS	VALUE IN FRANCS	DATE	DEPOSIT	EXCH'GE ON PARIS	VALUE IN FRANCS
<b>1889</b>	<b>\$</b>			<b>1891</b>	<b>\$</b>		
					168		437.99
January...	7	3.05	21.35	January...	7	2.9	14.63
February	7	3.06	21.42	February	7	1.83	12.81
March ...	7	2.94	20.58	March ...	7	1.73	12.11
April .....	7	2.76	19.32	April .....	7	1.68	11.76
May .....	7	2.71	18.97	May .....	7	1.78	12.46
June .....	7	2.67	18.65	June	7	1.73	12.11
July .....	7	2.59	18.13	July ...	7	1.66	11.62
August ..	7	2.64	18.48	August ..	7	1.68	11.76
September	7	2.66	18.62	September	7	2.11	14.77
October...	7	2.65	18.55	October...	7	2.24	15.68
November	7	2.44	17.08	November	7	2.30	16.10
December	7	2.64	18.48	December	7	2.25	15.75
<b>1890</b>				<b>1892</b>			
January...	7	2.63	18.41	January...	7	2.16	15.12
February	7	2.60	18.20	February	7	2.14	14.98
March ...	7	2.62	18.34	March ...	7	1.98	13.86
April .....	7	2.50	17.50	April .....	7	1.85	12.95
May .....	7	2.50	17.50	May .....	7	1.86	13.02
June .....	7	2.47	17.29	June .....	7	1.84	12.88
July .....	7	2.36	16.52	July .....	7	1.85	12.95
August ...	7	2.45	17.15	August ..	7	1.89	13.23
September	7	2.48	17.36	September	7	1.79	12.53
October...	7	2.47	17.29	October	7	2.01	14.07
November	7	2.37	16.59	November	7	1.97	13.79
December	7	2.31	16.17	December	7	1.90	13.30
	168		437.99		336		762.23

DATE	DEPOSIT	EXCH' GE ON PARIS	VALUE IN FRANCS	DATE	DEPOSIT	EXCH' GE ON PARIS	VALUE IN FRANCS
1893	\$			1896	\$		
	336		762.23		588		1,151.57
January...	7	1.81	12.67	January...	7	1.83	12.81
February	7	1.74	12.18	February	7	1.84	12.88
March ...	7	1.68	11.76	March ...	7	1.84	12.88
April .....	7	1.58	11.06	April .....	7	1.82	12.74
May .....	7	1.47	10.29	May .....	7	1.83	12.81
June .....	7	1.57	10.99	June .....	7	1.83	12.81
July .....	7	1.48	10.36	July .....	7	1.83	12.81
August ...	7	1.59	11.13	August ...	7	1.83	12.81
September	7	1.57	10.99	September	7	1.83	12.81
October...	7	1.51	10.57	October...	7	1.83	12.81
November	7	1.47	10.29	November	7	1.83	12.81
December	7	1.33	9.31	December	7	1.83	12.81
1894				1897			
January...	7	1.39	9.73	January...	7	1.83	12.81
February	7	1.35	9.45	February	7	1.84	12.88
March ...	7	1.36	9.52	March ...	7	1.84	12.88
April .....	7	1.30	9.10	April ...	7	1.84	12.88
May .....	7	1.17	8.19	May .....	7	1.84	12.88
June .....	7	1.21	8.47	June .....	7	1.84	12.88
July ... ..	7	1.24	8.68	July .....	7	1.84	12.88
August ...	7	1.24	8.68	August ...	7	1.84	12.88
September	7	1.22	8.54	September	7	1.84	12.88
October...	7	1.34	9.38	October...	7	1.84	12.88
November	7	1.45	10.15	November	7	1.84	12.88
December	7	1.45	10.15	December	7	1.84	12.88
1895				1898			
January...	7	1.47	10.29	January...	7	1.84	12.88
February	7	1.66	11.62	February	7	1.84	12.88
March ...	7	1.75	12.25	March ...	7	1.84	12.88
April ...	7	1.73	12.11	April .....	7	1.83	12.81
May .....	7	1.77	12.39	May ... ..	7	1.83	12.81
June .....	7	1.84	12.88	June .....	7	1.82	12.74
July .....	7	1.78	12.46	July .....	7	1.81	12.67
August ...	7	1.81	12.67	August ...	7	1.42	9.94
September	7	1.82	12.74	September	7	1.37	9.59
October...	7	1.82	12.74	October...	7	1.38	9.66
November	7	1.82	12.74	November	7	1.36	9.52
December	7	1.83	12.81	Décember	7	1.32	9.24
	588		1,151.57		840		1,597.47

DATE	DEPOSIT	EXCH'GE ON PARIS	VALUE IN FRANCS	DATE	DEPOSIT	EXCH'GE ON PARIS	VALUE IN FRANCS
1899	\$			1902	\$		
	840		1,597.47		1092		2,004.10
January...	7	1.24	8.68	January...	7	1.44	10.08
February	7	1.33	9.31	February	7	1.57	10.99
March ...	7	1.42	9.94	March ...	7	1.60	11.20
April .....	7	1.45	10.15	April .....	7	1.63	11.41
May .....	7	1.56	10.92	May .....	7	1.68	11.76
June .....	7	1.54	10.78	June .....	7	1.69	11.83
July .....	7	1.61	11.27	July .....	7	1.69	11.83
August ...	7	1.62	11.34	August ...	7	1.69	11.83
September	7	1.60	11.20	September	7	1.72	12.04
October...	7	1.49	10.43	October...	7	1.72	12.04
November	7	1.58	11.06	November	7	1.71	11.97
December	7	1.68	11.76	December	7	1.73	12.11
1900				1903			
January...	7	1.69	11.83	January...	7	1.73	12.11
February	7	1.69	11.83	February	7	1.73	12.11
March ...	7	1.71	11.97	March ..	7	1.72	12.04
April .....	7	1.70	11.90	April .....	7	1.75	12.25
May .....	7	1.72	12.04	May .....	7	1.72	12.04
June .....	7	1.78	12.46	June .....	7	1.73	12.11
July .....	7	1.80	12.60	July .....	7	1.72	12.04
August ...	7	1.79	12.53	August ...	7	1.75	12.25
September	7	1.80	12.60	September	7	1.73	12.11
October...	7	1.82	12.74	October..	7	1.73	12.11
November	7	1.79	12.53	November	7	1.74	12.18
December	7	1.79	12.53	December	7	1.75	12.25
1901				1904			
January..	7	1.66	11.62	January...	7	1.73	12.11
February	7	1.42	9.94	February	7	1.73	12.11
March ...	7	1.65	11.55	March ...	7	1.74	12.18
April .....	7	1.62	11.34	April .....	7	1.73	12.11
May .....	7	1.61	11.27	May .....	7	1.75	12.25
June .....	7	1.65	11.55	June .....	7	1.76	12.32
July .....	7	1.65	11.55	July .....	7	1.74	12.18
August ..	7	1.61	11.27	August ...	7	1.73	12.11
September	7	1.60	11.20	September	7	1.70	11.90
October...	7	1.50	10.50	October..	7	1.72	12.04
November	7	1.47	10.29	November	7	1.68	11.76
December	7	1.45	10.15	December	7	1.69	11.83
	1092		2,004.10		1344		2,433.69

DATE	DEPOSIT	EXCH'GE ON PARIS	VALUE IN FRANCS	DATE	DEPOSIT	EXCH'GE ON PARIS	VALUE IN FRANCS
1905	\$ 1344		2,433.69	1907	\$ 1512		2,696.19
January...	7	1.69	11.83	January...	7	1.40	9.80
February	7	1.75	12.25	February	7	1.40	9.80
March ...	7	1.69	11.83	March ...	7	1.35	9.45
April .....	7	1.66	11.62	April .....	7	1.31	9.17
May .....	7	1.63	11.41	May .....	7	1.33	9.31
June .....	7	1.65	11.55	June .....	7	1.32	9.24
July .....	7	1.65	11.55	July .....	7	1.30	9.10
August ...	7	1.62	11.34	August ...	7	1.26	8.82
September	7	1.59	11.13	September	7	1.27	8.89
October...	7	1.60	11.20	October ..	7	1.20	8.40
November	7	1.55	10.85	November	7	1.00	7.00
December	7	1.50	10.50	December	7	1.00	7.00
1906				1908			
January...	7	1.48	10.36	January...	7	1.10	7.70
February	7	1.53	10.71	February	7	1.02	7.14
March ...	7	1.56	10.92	March ...	7	0.95	6.65
April .....	7	1.57	10.99	April .....	7	0.95	6.65
May .....	7	1.49	10.43	May .....	7	0.95	6.65
June .....	7	1.48	10.36	June .....	7	0.87	6.09
July .....	7	1.50	10.50	July .....	7	0.93	6.51
August ...	7	1.48	10.36	August ...	7	1.10	7.70
September	7	1.48	10.36	September	7	1.12	7.84
October ..	7	1.45	10.15	October...	7	1.08	7.56
November	7	1.44	10.08	November	7	1.10	7.70
December	7	1.46	10.22	December	7	1.22	8.54
Total.....	1512		2,696.19	Total.....	1680		2,888.90









